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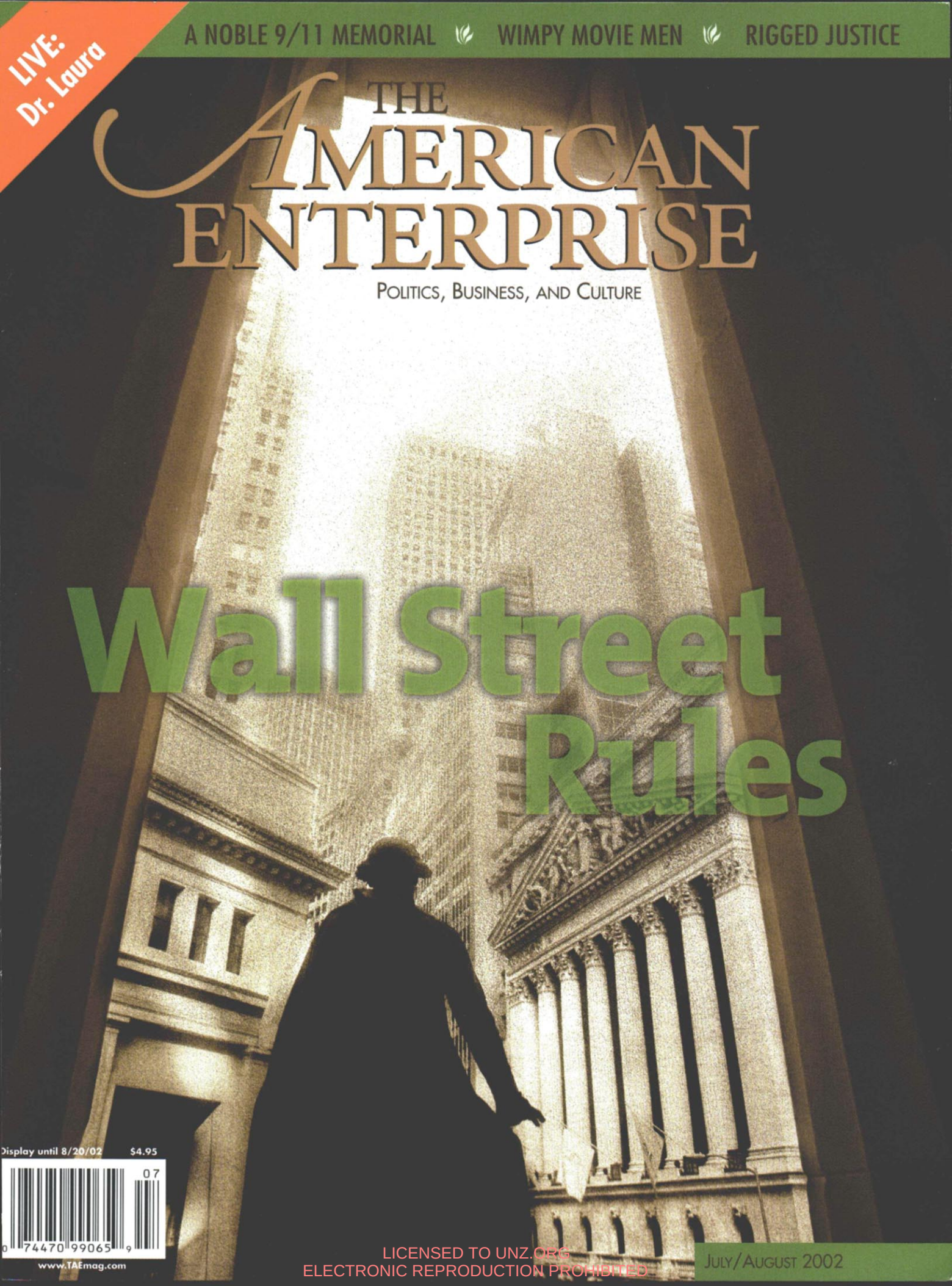

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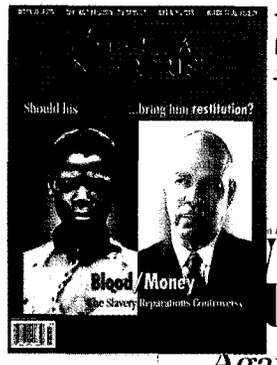


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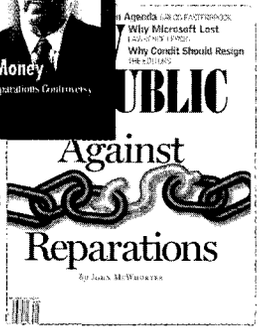


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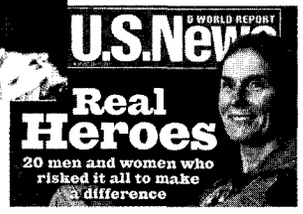


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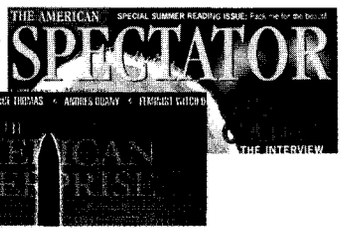


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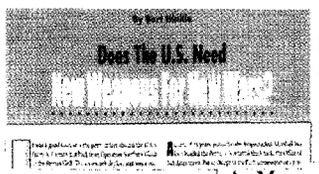


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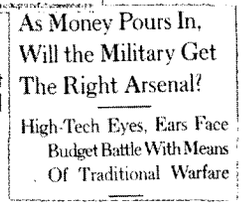


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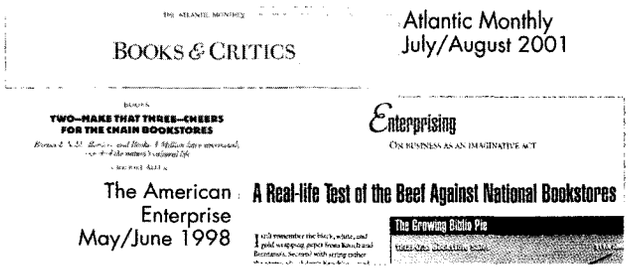
March 2000

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## *Incremental Innovation Improves Patient Health*

***by Albert I. Wertheimer***

The process of repeated incremental improvement is the predominant mechanism of innovation and product development within most manufacturing and high-technology companies, including pharmaceutical companies. In fact, the history of clinical pharmacology is characterized by incremental improvements in the safety, efficacy, selectivity, and utility of drugs within a given class. Some critics believe that these incremental advances are too costly and do not ultimately benefit the consumer. In this view, new agents in a class are merely "me-too" drugs with no significant differences from the original agents. This is a misconception. The new medicines resulting from this evolutionary process can offer advantages in terms of improved efficacy, better patient satisfaction and compliance and, in many cases, cost savings.

The existence of multiple agents within a given drug class offers many advantages. One is the availability of alternative agents in cases of treatment failure, and of backup in case an agent is withdrawn from the market. The development of drug product classes is analogous to the evolution of biological species, and the advantages of diversity within groups of pharmaceutical products (i.e., "pharmacodiversity") are similar to the advantages of biodiversity. Within a drug class, products with varying features compete for patients. The emergence of new disease and patient targets expands the role of some agents; others are disadvantaged by newly discovered adverse effects. Thus, those products that are the best "fit" for their environment dominate the marketplace. Other products may become extinct and still others maintain positions in "niche markets."

The availability of multiple agents within a drug class also makes it possible to vary dosage delivery systems and dosage forms, which in turn allows extended uses with a variety of patient populations. Advanced delivery systems provide sustained therapeutic drug levels for long periods of time, can enable the use of smaller or fewer doses, allow a less invasive mode of administration, and prolong circulation of short-lived compounds. Newer drugs in a therapeutic class often represent improvements in therapeutic and adverse effects profiles, metabolism, dosing schedules, ease of administration, and other features. These findings apply to drug classes used to treat many common diseases and patient groups, especially the elderly.

> ***The process of incremental innovation has resulted in striking improvements in existing drug therapy and patient care, and in some cases in reduced total costs for therapy***

Moreover, patient responses to and toleration of agents are subject to great individual variations. The availability of a broad range of medicines gives physicians a "tool chest" for treating the individual needs of diverse patients with precision, as well as for giving those patients options when the first agent used is either ineffective or not well-tolerated.

In addition, some incremental innovations have been associated with overall cost savings. Newer agents of a class, or new formulations of existing agents, often enable new cost-effective uses or more efficient treatment for the original indication. These savings can come from reduced overall treatment costs due to shortened or eliminated hospital stays, less need for surgery, increased worker efficiency, and less absenteeism. Moreover, since incremental innovations must compete with their predecessors for market share, they are often priced at a discount. New drugs in a class are frequently priced lower than existing agents within that class.

Policies that limit the availability of incremental drug innovations may deny access to important therapies, reduce competition, and erode incentives for research. Over time, the process of incremental innovation has resulted in striking improvements in existing drug therapy and patient care, and in some cases in reduced total costs for therapy. However, short-term attempts to contain current costs, in the form of price controls or limitations on reimbursement for incremental innovations, may reduce incentives for research on these products. Access to important therapies could be reduced and competition within drug classes could diminish. Therapeutics would become less differentiated; the "average patient" would be treated with the "average drug." Patients with more specific needs would not receive individualized treatment because more selective pharmaceutical therapies would not exist.

Policy makers must weigh the risks and benefits associated with cost-containment tactics that limit the availability of incremental pharmaceutical innovation. Since drug therapy is generally agreed to be the most cost-effective treatment modality, the economic as well as the clinical stakes are high.

*Albert I. Wertheimer, Ph.D., M.B.A., is director of the Center for Pharmaceutical Health Services Research at Temple University School of Pharmacy.* *This article is based on a longer study – "Too Many Drugs? The Clinical and Economic Value of Incremental Innovations," co-authored with Richard Levy, Ph.D. and Thomas W. O'Connor, Pharm.D., M.B.A – that was published in* Investing in Health: The Social and Economic Benefits of Health Care Innovation, *vol. 14 (2001), pp. 77-118. The full study is available online at http://www.npcnow.org/productlist/PDF/toomanydrugs.pdf*

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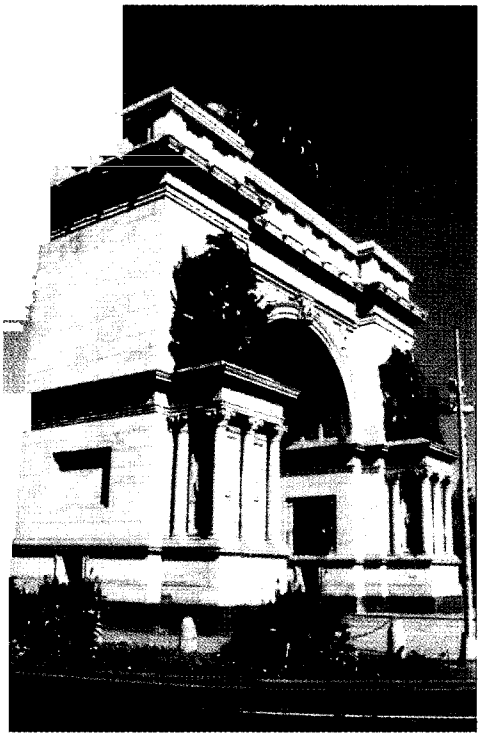

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*Cover photo: Getty Images/Stone*



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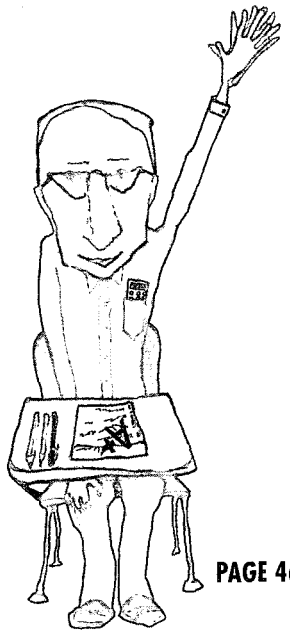

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# Bird's Eye

Karl Zinsmeister

# Who's Afraid of Investing?

You can love or loathe Wall Street and the whole machinery of investment capitalism. Both passions have deep American roots. But the reality is, every person living in the U.S. is heavily indebted to the traders, bankers, and brokers who fund our business start-ups, fill our retirement accounts, finance our factories and buildings, and keep our economy balanced and humming. If you have a mortgage, work at a corporation, save money for college, or buy the products of a new company, you are a beneficiary of America's super-efficient, hyper-creative financial sector.

Even if you are living on charity, you are indebted to Wall Street—perhaps more than anyone. Thanks in considerable measure to investment growth, the total net worth of Americans rocketed from $7 trillion in 1950 to close to $40 trillion today (in constant dollars), and much of this increase is being channeled into philanthropy. An estimated $34 trillion will be given away over the next generation by successful investors. Those donations will build schools, cure diseases, erect museums, and underwrite social rejuvenations of all sorts. If you think that high finance benefits only fat cats, try living in a non-investing society. They are not good places for little people.

American financiers live and breathe to extend the profitability of businesses, and that is no small task. As even arch-unionist Samuel Gompers, the first president of the American Federation of Labor, recognized: The worst crime against working people is a company that fails to make a profit—for that company will not long remain an employer, or supplier, or buyer of other workers' goods. (Andrew Biggs, who contributes an essay on page 32, unearthed that useful citation.)

Most Americans appreciate all this, and do not need to be convinced of the importance of private investment. Much more than other nationalities, Americans are thoroughly enmeshed in investing and small-scale capitalism; about half of all adults now own stocks or bonds. In Germany, only 10 percent do. According to Merrill Lynch's annual survey, 24 percent of U.S. *teenagers* now own stock, so our habits of investing will only deepen as generations age.

There is no other country in the world that has capital markets as large and healthy as ours. The total value of U.S. stock came to 114 percent of our gross domestic product in 1996. The corresponding figure was 66 percent in Japan, 38 percent in France, and just 28 percent in Germany, reports economics writer Brink Lindsey. These vast stock accumulations, and the fact that our markets are more trustworthy and efficient than others, leave everyone from sheiks in Bahrain to industrial titans in South Korea hankering to place their money alongside our own in American investments. This fuels U.S. businesses, makes the dollar the world's favorite currency, and gives us an historically unprecedented level of affluence and economic security.

This U.S. advantage is widening. A couple of decades ago, London, Tokyo, and Germany challenged New York as centers of world finance. Today, all three of those rivals have been decisively surpassed, especially the latter two. In Japan, firms like Goldman Sachs, Merrill Lynch, and Morgan Stanley now dominate investment banking. London



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is a powerful money center, but in terms of investing volume and innovative ways of raising and applying capital, it lags U.S. markets. Economist Lawrence Kudlow characterizes Wall Street's current advantage over its competitors as "insurmountable."

*Mass investing can increase the quality of American life, reduce economic disparities, and turn all workers into full participants in our economy.*

One of the reasons our financial sector has grown so potent is because it has drawn heavily on America's best minds. Over the last generation, we have seen an intellectualization of investing; in particular, math and science have met Wall Street in a big way. In his forthcoming book on the stock market, AEI economist Kevin Hassett touches on some of the new quantitative techniques money managers use to uncover market discontinuities, and notes that many of the innovators are not people trained in finance or business, but rather extremely bright refugees from fields like theoretical physics, psychology, biology, computer science, and mathematics.

Bruce Kovner, who serves on the American Enterprise Institute's board of trustees, is a quiet, modest man who will probably be annoyed to have me draw attention to him, but he is a perfect model of the new Wall Street intellectual, and what these individuals have added to our finance world. Twenty-five years ago, Kovner was a star Ph.D. student of Harvard political scientist Edward Banfield, and an enthusiastic harpsichordist and budding collector of rare books. Then, amidst a fit of writer's block while working on his dissertation, he borrowed $3,000 to start trading copper and other commodities. He turned out to have a gift for the work. Over the last decade, he has been America's most successful hedge-fund manager, employing Russian-émigré mathematicians and other such whizzes to help him execute his arcane trades, and generating literally billions of dollars of profits in the process.

For more examples on the wonkification of investing, a look at the blurring of the lines between academic and real-world finance, and some brief discussion on the role of computers and meritocracy in remaking Wall Street over recent years, see our feature story starting on page 46.

As stock market historian B. Mark Smith told me this spring, "The investment business has become much more sophisticated. Even ten years ago, firms took huge risks using little more than seat-of-the-pants intuition. Today's new quantitative techniques have dramatically lowered the risk profiles." Just the same, superlative investing remains an art, and even in an era of heavy financial engineering and cookie-cutter systemization of trading, the great talents able to spot opportunities invisible to others will, almost by definition, have a rare sixth sense.

This was clear to me when I recently met a friend who had worked on Capitol Hill at the same time I did. "Bud" shifted gears after a few years and embarked to Wall Street, where he quickly became a legendary trader. Just weeks before we talked, he made millions of dollars for his firm by anticipating the demise of Enron—and he did so in the most un-high-tech way imaginable. The reported profit levels of the energy trading industry simply smelled improbably high to him a year or two ago. At that point he wasn't looking at Enron in particular, but rather at the broader industry Enron occupied with several other companies. Working backwards from the claimed profitability of these firms, using very simple math, he quickly realized that the scope of the business could not explicably produce such aggregate earnings. Without a whiff of the specific finagling then going on at Enron, he knew someone was faking profits. He heavily shorted the stock of Enron and its competitors, betting their price would drop, and very soon he looked like a mind reader. He is now managing one of the biggest and most famous hedge funds in America.

There are many admirable, exemplary personalities working in American finance today—people like Kovner, Peter Lynch, and John Bogle. There are also some awful narcissists, scammers, and fast-talkers. While researching this issue I read half a dozen autobiographies penned by Wall Street titans like George Soros, Victor Niederhoffer, James Cramer, and Michael Steinhardt. I can fairly say that this was some of the most painful literature I've crawled through in the last few years. Finance guys generally do not give piquant interviews either. Being an economic prodigy doesn't necessarily make you a fascinating person.

At times, some of the Wall Street lords come painfully close to embodying their enemies' caricatures of them as soulless, selfish, insecure, and venal. Steinhardt's book, for instance, provides extensive, at times sentimentalized, discussion of the shameless gambles, cheats, compulsions, cut corners, bald-faced lies, even crimes, of his father. This hardly inspires confidence in the more sophisticated financial manipulations of the son.

Ultimately, though, flaws in some of the masterminds don't make that much difference on Wall Street. Irresponsible or unethical actors can stir up great storms temporarily, and their periodic excesses feed the stereotypes of predatory financiers, undermining the credibility of straight-shooting compatriots who are far more numerous in our banks and brokerages. But the impressive thing about Wall Street is that, in the end, the system uses these dicey characters more than they use the system. Their manic talents get absorbed into the larger structure; their useful innovations become standard practices; in the process, the overall productivity of modern capitalism is ratcheted up. And their blemishes, if serious, eventually are exposed, leading



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to their personal downfall or marginalization. In time, the frauds and cheats will be unmasked on Wall Street—always. The stakes are too high, the results too immediate and too public, and the power too decentralized for any truly dishonest operator to last long before being outed by someone else.

*If the U.S. is to become a full-fledged investor nation, where every citizen is a yeoman capitalist, it's important we keep our markets and corporations scrupulously honest.*

Of course a talented sociopath might have a run of a few years before this happens. There was so much money sloshing through Wall Street in the late 1990s that many people grew fat and sloppy, and the slicksters got away with more than usual. So there has been a good deal of outing going on lately.

Pulling a *Wall Street Journal* almost randomly from a pile on my desk, I find a late-May installment with two front-page stories detailing some of the astonishing excesses that took root at the peak of our last financial boom. One article tells how the founder of a nursing home chain that was a Wall Street darling for most of the decade milked the company for $60 million in "loans" and other unrepaid funds, and how he continued to buy million-dollar paintings for his own residence with corporate money even as the company went bankrupt. The second story, one column away, tells how the Rigas family, who ran the Adelphia corporation, treated that publicly owned firm like a personal piggy bank, pulling out an incredible $3.1 billion to build lavish estates, provide sinecures for family members, fund one daughter's film, and so forth.

Clever Wall Street investment bankers, accountants, and advisers were often the enablers behind these sorts of indulgences. And the '90s stock market bubble fueled other serious lapses within Wall Street itself. For one thing, many stock "research analysts" became shameless hucksters. Even amidst the present bear market, studies show, analyst "buy" ratings continue to outnumber their "sell" ratings by 25 to 1 (figures as of May 2002), so the Wall Street tout machine can be pretty shameless. Recently, Merrill Lynch agreed to change its procedures and pay a $100 million fine, in acknowledgement that its analysts were often more interested in peddling commission-producing goods than in giving good advice to investors. (For more on this problem, see Phil DeMuth's sharp cautionary on pages 42-43.)

Another recent Wall Street scandal is the appalling cronyism and insider dealing that allowed an anointed few to make huge sums in the second half of the '90s at Initial Public Offerings. These were events organized by investment banks to launch start-up companies into life as publicly traded corporations, and in many of them, bankers and executives gave preferential treatment to favored friends and clients. Centimillionaires who had done nothing more than network the right bankers were created overnight. These sweetheart deals came at the expense of both the general stock-buying public and the fledgling companies. And they smelled to high heaven.

Even those of us who are, on the whole, enthusiastic admirers of capitalism must face it: During the last decade, some truly obnoxious SOBs got away with fiduciary murder—for a while. While the press unfairly attacked the '80s as the "decade of greed" (an indirect way of undermining Ronald Reagan and his pro-business agenda), the truth is there were far more ugly pig-outs during the 1990s, (as many reporters would have been sure to notice had there been a Republican in the White House).

Defenders of capitalism should be aggressive in attacking economic rapaciousness, for it undermines public confidence in a system that is essential to our prosperity and liberty. "In the later '90s, too many bankers, accountants, executives, and so forth forgot the difference between right and wrong. Morality really does matter in economics. Ethical breakdowns eat at trust, which is essential to any system of free exchange," says Larry Kudlow, one of relatively few free-market economists to sharply assail Enron and other companies for their recent financial hustles. In an interview from his Manhattan office, Kudlow called for slapping Enron, Andersen, and similar spawn with stiff penalties, more conservative accounting standards, and stronger corporate disclosure guidelines. The "Enron effect," Kudlow notes, has "essentially frozen the entire U.S. stock market for months, and painfully delayed our national economic recovery. Stockbuyers feel hoodwinked, and have been on the warpath even while the economic outlook has been improving. They've pounded Tyco, PNC, J. P. Morgan, Global Crossing, IBM, GE, and many others in search of more honest accounting, a higher degree of corporate disclosure and governance, elevated standards for executives, and more ethical corporate-board oversight."

This "investor revolt" is serious, and enthusiasm for the stock market will not return until transparency and accountability are restored. Free marketers ought to be leading this charge. "White collar crime has the potential to screw up the 'Investor Politics' that many of us are hoping will lead America back toward limited government," Kudlow warns. "If small investors begin to think the game is rigged in favor of the big boys, that's poison."

So far, the public has been remarkably unpanicked—see the encouraging data Karlyn Bowman has assembled on pages 60-61. To their credit, average Americans have not, as yet, let the dot-com bomb, the tech wreck, and the shenanigans of certain executives and Wall Street miscreants sour them on the value of private investing. But if the U.S. is to become a full-fledged investor nation, where every citizen is a yeoman capitalist with his own little piece of the national economic pie in the form of publicly traded stocks and bonds (that is the fond hope of many of us—see the articles on pages 30-37), then it is important we keep our markets and our corporations scrupulously clean and honest.



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The good news is, that shouldn't be too hard. First, most American businesses already put heavy emphasis on upright behavior, if for no other reason than to keep their brand unsmirched. Second, our private markets have recently given (as Jim Glassman pointed out in his FORWARD OBSERVER column in our last issue) more or less the death penalty to Enron, Arthur Andersen, and several other companies that played fast and loose with their finances. This has reminded executives, bankers, and accountants what they risk when they cut corners. Third, the ferocious competition of free enterprise means there will be a race among firms to be part of the virtuous majority rather than the unethical minority. Already, Charles Schwab has launched an ad campaign touting its largely "self-serve" financial products as an alternative for investors upset with the conflicts of interest at some other brokerages.

*Opponents of personal investment accounts as part of Social Security are scared by the likelihood that mass investing will change the politics of America.*

The biggest reason to be encouraged about our ability to keep investing square and fair is that U.S. capital markets are by far the most open, transparent, and honest in the world. We are much better off in this regard than Japan and the European continent, where stock markets have always been dominated by insiders and big boys. In Japan and Europe, the majority of all stock shares are held by banks and large companies, who often collude behind the scenes. In the U.S., the comparable figure is 7 percent.

A study of companies listed on stock exchanges in various countries found that in Germany, the five biggest shareholders in a typical corporation held 56 percent of its shares, on average. In France, the average was 58 percent. But in the U.S., the top five shareholders controlled just 25 percent, reports Brink Lindsey. Financial power is much more decentralized in America, which sharply reduces the likelihood of exploitative manipulation of holdings.

The very best way for any individual to avoid stock market hypes and hustles is to follow the sage advice Jim Glassman provides starting on page 38. Forget buying the stock of the month, forget broker "tips," forget active trading altogether. Just buy a basket of equities that reflects a cross-section of U.S. business, sit back and hold those investments for the long run, and you will share in the broad progress of the American economy. It is a low-risk, almost foolproof way to make even modest-income families financially secure over a lifetime.

A decade or two ago, the strategy I've just described was easier said than done. But the wonderful democratization of investing that has taken place over the last generation has now made it possible to buy small increments of stocks and bonds cheaply, easily, and safely. Thanks to Vanguard, Ameritrade, Exchange Traded Funds, and many other such innovations, becoming a shareholder and wealth owner is now within the reach of even the smallest of the "little people." That is a great blessing, if we take advantage of it. Mass investing can increase the quality of American life, reduce socio-economic disparities, and turn all citizens into full participants in our economy, rather than just wage serfs.

The obvious place to exercise our new opportunities for democratic investing is within the Social Security program. With relatively simple reforms, all Americans can become wealth-owners, and FDR's New Deal fossil can be updated for the twenty-first century. Most other advanced nations—including places like Britain and Australia—have already moved to set up personal investment accounts within their Social Security systems. It's perverse that the U.S.—otherwise the most investment-friendly place in the world—should be one of the last to act.

All that is lacking is some political imagination and courage. Many of the groups now blocking personal accounts are extremely vulnerable. Some of the loudest opponents are unions that represent government workers. Yet these same unions stash the pension funds of their own members in private investment accounts! If Wall Street is the best place for the retirement funds of unionists, why is it too "risky" for other Americans?

I'll tell you the reason: The "risks" that make unions, Al Gore, and the other mad dogs foam at the mouth against personal investment accounts as part of Social Security have nothing to do with economics. (You can be sure Al Gore's own pension sits comfortably in some private investment.) What really scares these people is the likelihood that mass investing will change the *politics* of America.

Survey research finds that individuals who have owned stocks or bonds for more than five years are 30 percent more likely to identify themselves as Republicans; they are more likely to favor limits on the scope of government; they are more supportive of private initiative, entrepreneurship, and self-reliance. They are, in short, lousy clients for politicians seeking captives—economically dependent on the state—who will habitually vote to keep the forces of big government in power.

That's a sorry reason to leave millions of low- and middle-income Americans locked in hand-to-mouth, wolf-at-the-door, empty-purse economics. Want to build some family wealth? Feel grown up enough to make decisions about your own economic future? Then rise up in favor of personal investing! You have nothing to lose but your Washington ball and chain.



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# Sidelights

The Federal Bureau of Prisons is seeking a "dance instructor" to teach beginning and advanced classes to the Texas inmate population. ❦ At Harvard University, transvestite and self-proclaimed "queen" **William L. Adams** won the title of "Miss Harvard." ⋯ **Josh Godbold**, a 14-year-old North Carolina eighth-grader, claims he is a victim of sexual discrimination because he wasn't allowed to try out for his school's all-girl softball team. ❦ New York University's student-run sado-masochist group WHAP (We Honor All Perverts) tried to sell hazing services to NYU fraternities and sororities. ❦ Former Soviet premier **Mikhail Gorbachev** told *Crisis* magazine that his "relationship with **President Clinton** was quite strained, if not downright tense.... I was highly critical of his foreign policy. He is guilty for the fact that the U.S. has wasted those ten years following the end of the Cold War."

Russia's Sovietsky Hotel, built under **Joseph Stalin**'s orders, is prominently using the late dictator's image in its advertising and interior design. The hotel features a red neon hammer and sickle on the outside, and numerous portraits of Stalin and **V. I. Lenin** on the inside. "Sixty percent of our clients are German, and Stalin attracts them," said hotel manager **Valery Maximov**. "They often gaze at his portrait, perhaps because he reminds them of the **Hitler** era, when they were a major power." ❦ French driving students may soon have to wait 24 hours before learning the results of their driving tests. Too many candidates are attacking examiners who fail them on the spot. ❦ Several U.K. and U.S. scientists have written a report questioning common ideas about global warming. **Philip Stott**, professor emeritus of biogeography at the University of London, said "The authors challenge the key contradiction at the heart of the Kyoto Protocol, the global climate agreement—that climate is one of the most complex systems known, yet that we can manage it by trying to control a small set of factors, namely greenhouse gas emissions. Scientifically, this is not mere uncertainty: It is a lie." ❦ A new game is being billed as the "first and only board game to depict life from the perspective of a minority." The name of the game is "Life as a Blackman." ❦ "**Dale Earnhardt**'s death changed many lives this past year," noted ESPN's **Rupen Fofaria**. "It even changed his own." ❦ London has installed urinals that pop up from sidewalks after dark, as a way of preventing men from urinating in doorways on the way home from drinking. ⋯ A consulting firm has found London and Athens to be the dirtiest capitals in the European Union. ❦ The European Union is spending $3 million on research to make cows less flatulent and their droppings less smelly. ⋯ Indian researchers have found that irradiating beans may reduce the bean's gas-inducing qualities.

"There's only one chapter I'm interested in and I'd like to pay for it separately."

In a *Wall Street Journal* piece about the supposed "implicit pacifism" of Buddhism, **Woody Hochswender** wrote, "Frankly speaking...if you put a rifle in my hands and somehow got **Osama bin Laden** into the crosshairs, I, as a Buddhist, would endeavor to place a bullet between his eyes." ⋯ The government of Thailand is trying to curb cigarette smoking by the nation's Buddhist monks. Half of the monks smoke, compared to one fifth of the general Thai population. ❦ **Grand Ayatollah Montazeri**, a leading Iranian cleric, issued a *fatwa*, read aloud in the Iranian Parliament, stating that "Suicide terrorism is antithetical to the teachings of Islam, and those who practice it and kill women, children, and babies, are doomed to eternity in hell." ❦ An Oklahoma woman was charged with trying to trade her 7-month-old baby for a Chihuahua puppy. ⋯ **Richard Espinosa** claims the feline mascot of an Escondido, California library attacked his dog, and that the cat's actions constituted a hate crime. He is suing the city for $1.5 million. ❦ **Charlie Stitzer**, 63, of Pleasant Gap, Pennsylvania, went to court and won the right to garden in the nude on his property. ❦ A 3' 2" radio personality is suing Florida in an effort to overturn the state's ban on dwarf tossing. —*BB*



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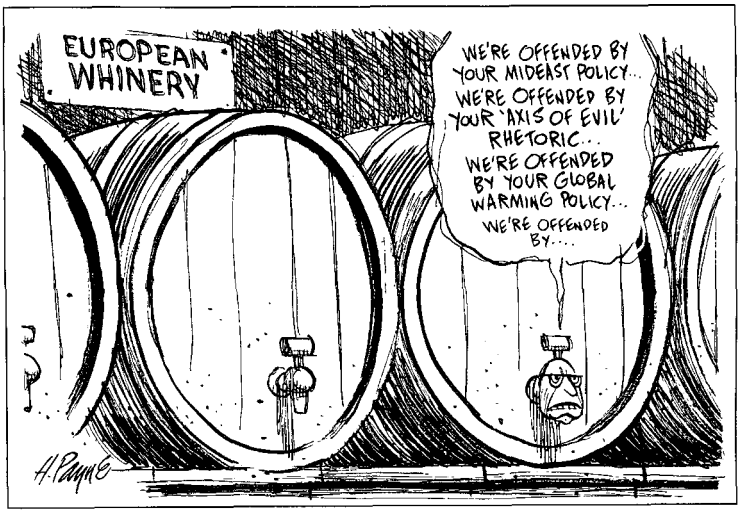
# Scan

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## INDIAN BULLYING

More than three years ago, *TAE* published a powerful article about the sad condition of many American Indians under the influence of welfare-state liberalism (see www.taemag.com/taend98d.htm). Our author, school teacher Hendrik Mills, moved to the Fort Belknap Indian Reservation in Montana with his wife, a physician, specifically to help improve conditions for Native Americans.

Maybe the local Indian activists are slow readers; a month or two ago, one of them started sending copies of the 1998 piece all across Blaine County (an area slightly smaller than Connecticut, which is 45 percent Indian). Mills, his family, his employers, and his friends have since been threatened and harassed.

Hendrik and his wife founded a private school which they ran out of their home last year. Until recently, it was scheduled to move into the basement of the local Baptist church for the 2002-2003 school year. But since his *TAE* article began getting reprinted this spring, Indian activists in the congregation have pressured the pastor to cancel the agreement. A couple who operate a local auto repair garage are likewise being threatened with a boycott for sending their two children to the school run by Mills. Finally, the tribal council of Fort Belknap is trying to get Mrs. Mills fired from her job as a doctor in the local Indian Health Service hospital (where she is extremely popular with the Indian patients).

For speaking sad truths about the damage socialist entitlements have done in Indian country, Mr. Mills has been labeled a "racist." The attack is pathetically kneejerk, and scandalously absurd. The truth is, he is extraordinarily generous and community-minded; his wife is half-Chinese; one of their children is an adopted African-American boy.

There's another word that more accurately describes the quality in Hendrik Mills that Indian agitators despise: honesty.

## RIGGED JUSTICE

What the American people most need to understand, future Supreme Court Justice Felix Frankfurter once advised President Franklin Roosevelt, is that Constitutional law often has little to do with the Constitution and much to do with the views of judges.

That is something the American people need to recognize even more today. It is illustrated by the recent decision of the Sixth Circuit Court of Appeals to uphold the racially preferential admissions policy of the University of Michigan law school. The decision is not only incorrect under existing law, but is apparently the result of questionable judicial behavior.

The suit was brought by a white woman denied admission to the school even though she would have gotten in —as the school conceded—had she been black. A federal district judge held this racially discriminatory policy un-Constitutional. On appeal by the law school, the Sixth Circuit, sitting *en banc* (all judges in active service rather than the usual three-judge panel), reversed the district court and held the policy Constitutional by a five-to-four decision.

So, what five federal judges find the Constitution prohibits, a different five judges find it permits. These opposite conclusions hardly arise from differences in ability to read the Constitution. They stem from who is doing the judging. Four of the five Sixth Circuit judges who voted to uphold racial preferences were appointed by President Clinton and the fifth was appointed by President Carter. The district judge and the four Sixth Circuit judges who found the preferences un-Constitutional were appointed by President Reagan (2), the first President Bush (2), and President Clinton (1).

The Sixth Circuit's decision seems incorrect on the merits because it is inconsistent with the Supreme Court's controlling decision in the famous 1978 *Bakke* case. In *Bakke*, the Court held that racial preferences may not be used in university admissions merely to admit more members of preferred groups, but could be used as a "plus" to "tip the balance" in close cases in order to achieve greater student body "diversity." The University of Michigan law school did not use race merely as a plus in close cases, but as the dominant factor in admissions. Instead of black applicants competing with white applicants for every place, as *Bakke* requires, they were virtually guaranteed admission with scores that would have meant almost certain rejection for whites. The school administration insisted it was seeking a "critical mass" of preferred students, not



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filling a quota, but resolutely refused to quantify "critical mass" in any way.

What is really surprising about the Sixth Circuit's decision is the way it was rendered. Judge Danny Boggs attached to his dissenting opinion an extraordinary "Procedural Appendix" asserting (with support from two other judges) that the court's Clinton-appointed majority manipulated and violated court rules with the effect of excluding two members of the court, Judges Alan Norris, a Reagan appointee, and Richard Surheinrich, a Bush Sr. appointee, from participating in the decision.

On May 14, 2001, attorneys petitioned the court that the case be heard *en banc.* At that time the court consisted of 11 active judges. If the petition had been promptly circulated to the entire court, as it should have been, all 11 would have been eligible to vote on it and then to participate in the *en banc* hearing and decision of the case. Chief Judge Boyce Martin, Jr. did not circulate the petition, however, until October 2001, after the time had arrived for Judges Norris and Surheinrich to take senior status, making them ineligible to vote on the petition and participate in the case. In early October, Senior Judge Ralph Guy, a Reagan appointee, after making "several unsuccessful efforts to speak with the Chief Judge...faxed to the Chief Judge a letter setting forth his concerns as to whether court rules and policies had been followed in this case. He received no response."

Judge Boggs was berated by Judges Daughtrey and R. Guy Cole, Jr. for making this history known, on the ground that it would "undermine public confidence" in the court. As Judge Alice Batchelder responded, however, "Public confidence in this court or any other is premised on the certainty that the court follows the rules in every case, regardless of the question that a particular case presents. Unless we expose to public view our failures to follow the court's established procedures, our claim to legitimacy is illegitimate."

—**Lino A. Graglia** *is a professor of law at the University of Texas.*

## BRISK IN BERLIN

President George W. Bush finally visited Germany. On May 23, he addressed members of the German parliament in Berlin. Unfazed by the thousands of grungy demonstrators protesting his visit outside the Reichstag, Mr. Bush was calm, steady, and gracious. He praised Europeans for uniting their countries peacefully, and he thanked the Germans for their sympathy after 9/11. He praised German policing efforts in Afghanistan. He spoke of "valued friends." But the purpose of his talk was not to deliver air kisses.

In the opening of his speech, Mr. Bush presented a diplomatic but explicit reminder of what the U.S. has done for Germany: "To this city, Allied planes brought food and hope during 323 days and nights of siege." He invoked the visits of Kennedy and Reagan to the once-divided city. And he made sure that Germany's political leaders remembered that "thousands of monuments in parks and squares across my country" are dedicated "to young men of 18 and 19 and 20 whose lives ended in battle on this continent."

The freedom of the European continent, this President reminded his hosts, was paid for by American sacrifice, blood, and honor. And he explained unapologetically that to protect freedom today, the U.S. will continue to take military action against terrorist regimes. "Wishful thinking might bring comfort, but not security. Call this a strategic challenge; call it, as I do, an axis of evil; call it by any name you choose, but let us speak the truth."

And President Bush didn't hesitate to point out—at great length—for whom his heart really beats faster these days. The Russians, the smitten President told the Germans, are "lending crucial support in the war on global terror." (Unlike the Germans, with their laughable military budget?) And if time is money, it's clear which country is richer in Bush's attention: He spent four days in Moscow (where he got a friendlier reception in the streets), less than 24 hours in Berlin.

So is the big German-American love affair over? Far from it, said Bush. "Different as we are, we are building and defending the same house of freedom." "And those who exaggerate our differences play a shallow game, and hold a simplistic view of our relationship."

But what about those angry young Germans burning American flags in the streets of Berlin? Do the German people really share the President's optimistic view? We'll find out soon enough.

## TORTUOUS CHOICE

In his latest book, Harvard Law School professor Alan Dershowitz suggested police and prosecutors might need "torture warrants" to elicit lifesaving information in an age of terrorism. In cases where a "ticking bomb" or other emergency existed, "The suspect would be given immunity from prosecution based on information elicited by torture.... The warrant would limit the torture to nonlethal means, such as sterile needles being inserted beneath the nails to cause excruciating pain without endangering life."

Recently, former New York City

## WHAT, ME, RESPONSIBLE?

In 1998, Edward Brewer visited an acquaintance suffering from cerebral palsy in an Ohio hospital. Brewer raped the 44-year-old woman, who was receiving chemotherapy and unable to defend herself, in her sick bed. After getting a sentence of ten years for this monstrous crime, Brewer is now suing the hospital. The rapist claimed in his lawsuit that—can you guess?—the hospital's "inadequate security in protecting visitors as well as their patients" caused him pain and suffering. He is asking for $2 million in damages.



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mayor Ed Koch endorsed the proposal, suggesting "we may have no choice…in a world where the threat of use of weapons of mass destruction by terrorists looms larger by the day." Koch also solicited reactions from others, like Anthony Kronman, dean of the Yale Law School, who stated, "In extreme cases [torture] may be inevitable, perhaps even, dare I confess it, appropriate."

Koch, however, would not set up new laws or warrants to be granted by courts, and would instead leave the decision to use physical duress in an emergency interrogation to the police. "My position is, let the cop make the decision. He knows if he makes the wrong decision, a jury in all probability will convict him. And the guy who gets tortured is going to get compensated when he sues." Meanwhile, if the officer makes a sound judgment, "no district attorney would indict him, and if he were indicted, jury nullification would protect him."

## GUANTANAMO DAYDREAM

*This little spoof came to us from a police officer friend:*

The White House

Dear Concerned Citizen,

Thank you for your recent letter roundly criticizing our treatment of the Taliban and al-Qaeda detainees being held at Guantanamo Bay, Cuba.

You'll be pleased to learn that, thanks to the concerns of citizens like you, we are creating a new program called "Liberals Accept Responsibility for Killers." In accordance with the guidelines of this program, we have decided to place one terrorist under your personal care. Your detainee, Ahmed, has been scheduled for transportation to your residence under heavily armed guard next Monday.

Ahmed is to be cared for pursuant to the standards you demanded in your letter of admonishment. We will conduct weekly inspections to ensure that your standards of care are commensurate with those you so emphatically recommended.

Ahmed's food requirements are simple, but we strongly suggest serving meals that do not require utensils, particularly knives and forks.

Please heed the large orange notice attached to your detainee's cage: "Does not play well with others." Ahmed is sociopathic and extremely violent, though we hope your sensitivity will help him overcome these character flaws. Or perhaps you are correct in describing these problems as mere cultural differences. Who knows—with a lot of hard work and caring on your part, perhaps he'll grow up and attend a flight training school right in your home town.

Your adopted terrorist is extremely proficient in hand-to-hand combat and can extinguish human life with such simple items as a pencil or nail clippers. He is also expert at making a wide variety of explosive devices from common household products, so you may wish to keep those items locked up, unless you think this might offend him.

Ahmed will not wish to interact with your wife or daughters (except sexually) since he views females as a form of property. However, he will be eager to assist with the education of your sons; have available for their use several copies of the Koran.

Thanks for your letter. We truly appreciate it when folks who know so much keep us informed of the proper way to handle security jobs. You take good care of Ahmed. And remember... we'll be watching.

Cordially,

George W. Bush

## SWEET JUSTICE

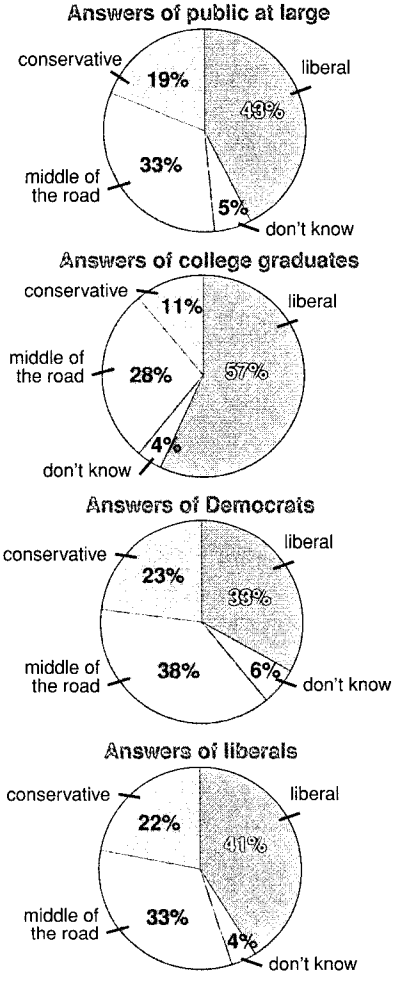
Suit-happy Harvard Law School professor Alan Dershowitz was recently sued by students who didn't like the way he taught sexual harassment law. He now says he will no longer teach a class without a tape recorder running .

## PUBLIC SEES MEDIA BIAS

CBS correspondent Bernie Goldberg's book that showcases liberal bias in the media (see *TAE*'s interview with Goldberg in our March issue) has had no discernible impact on establishment journalists. Nor should any have been expected. *Bias* is merely the latest addition to a huge body of literature—including at least 100 books and research monographs—documenting a widespread left-wing bias in the news. Yet none of it has had much effect.

Journalists and their defenders

**"What are the views of the news media on most matters having to do with politics?"**




Source: Lou Harris research for Center for Media and Public Affairs, November 1996.



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discovered long ago that such materials could usually be ignored or dismissed as the fevered ravings of right-wing zealots. On those rare occasions when a book or article breaks through to a wider audience, all that's required is a bit of damage control. First, the author is rigorously excluded from the largest popular media (which is why Goldberg has appeared only once on any of the three major television networks, though his book spent weeks at the top of the *New York Times* bestseller list). Second, in the rest of the elite media the author is subjected to personal abuse (as by Tom Shales), and endless quibbling about details of his work (as in Michael Kinsley's review). Seldom does anyone bother to respond to the substance of his argument, and in the end the attention of the public moves elsewhere.

Because the media have the power to set the terms of debate, every critic can be marginalized, every study rendered "controversial." So journalists and their apologists can always claim that media bias has not been proved. That is why Tom Goldstein, dean of the prestigious Graduate School of Journalism at Columbia University, feels free to make the astounding assertion that, while most journalists may be liberal in their views, "no study...has shown that the personal backgrounds and values of journalists are particularly relevant to how journalists report the news."

But there is a body of definitive evidence that proves a contrary view. Journalists like to claim that perceptions of media bias are purely a matter of perspective. They say the news is scrupulously fair and balanced, so when viewed by conservatives it appears skewed to the left, and from a liberal perspective it leans to the right. To test this contention, the Center for Media and Public Affairs (CMPA) commissioned a large-scale study of public attitudes about the press. Fielded by Louis Harris and Associates in November 1996, the telephone survey sought responses to 107 questions from a representative sample of 3,004 American adults. The unusually large sample made it possible to acquire accurate information about the views of various population subgroups.

Like earlier studies, the survey found that 74 percent of Americans see either "a great deal" (30 percent) or "a fair amount" (44 percent) of "political bias in news coverage." Fully 63 percent of the public believes the news media "tend to favor one side" in "presenting the news dealing with political and social issues." But unlike most studies, this one also asked respondents to "describe the views of the news media on most matters having to do with politics," giving them the choices of "very liberal, somewhat liberal, middle-of-the-road, somewhat conservative, or very conservative." The responses are illuminating.

Among the whole public, a plurality of 43 percent described the news media as very (18 percent) or somewhat (25 percent) liberal. This compares to only 19 percent who described the media as very (6 percent) or somewhat (12 percent) conservative.

More important, the study examined 75 different subgroups of the U.S. population and found that in 73 of them more people see liberal bias than see conservative bias in the news. Even Democrats and self-described liberals came to this conclusion (see accompanying chart). This conclusively refutes the claim that perceptions of bias are solely a function of perspective.

The CMPA/Harris study also divided respondents into five levels of political participation and five levels of education. The results show a near-perfect linear progression: The higher the level of participation and education, the greater the perception of a leftist slant to the news. Among the most politically active citizens, who are presumably best able to make accurate assessments of bias, 55 percent see a liberal tilt, only 15 percent a conservative. The findings are even more striking for the educated elite (see chart).

The verdict is in; the People have spoken; the media are guilty as charged. The time has come to shift the debate from whether the news is biased to what can be done to correct it.

—**Ted J. Smith III** *is an associate professor at Virginia Commonwealth University, and a fellow at the Center for Media and Public Affairs.*

## CATHOLICS NEED TRUTH

"It is a struggle to make sure the Catholic priesthood is not dominated by homosexual men." So says Bishop Wilton Gregory,



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president of the U.S. Conference of Catholic Bishops. Estimates vary, but it appears that from one quarter to half of priests may be homosexual. Only a small fraction, of course, have become ensnared in sexual abuse. But homosexuals are setting the tone in important parts of the Church, and high-ranking individuals have apparently covered up scandalous homosexual predation in churches, seminaries, and orders for years. "The pressing issue which must be faced by Church leaders is the presence of a homosexual subculture within the clergy that has preyed on adolescent boys, and intimidates those with information into silence," wrote Father William Maestri, spokesman for the Catholic Archdiocese of New Orleans, in late May. "It is long past time for this issue to be faced with what the Pope calls 'truth and justice.' We cannot continue to pretend that we are facing a pedophilia scandal by [a few] perverts. We must face the issue of homosexuality and the Catholic priesthood."

## KILLING BUFFALO?

How do you revitalize a city's downtown area? Easy—declare it Indian land and open a casino.

At least that's New York Governor George Pataki's plan. Pataki has negotiated a deal with the Seneca Indian tribe for casino construction in Niagara Falls and Buffalo, in hopes the gambling institutions will breathe economic life into these depressed areas. It's a risky bet. Gambling comes at a social cost—addiction, crime, prostitution, and other ills. Add in the fact that Indian casinos would have tax advantages over local businesses, and the damage may exceed any benefits.

But Pataki has decidedly political reasons to push ahead with the deal. He's counting on $600 million from casinos to provide revenue for his big-spending budget. And the deal with the Senecas includes a re-election sop to Big Labor (which Pataki is courting hotly this election year) giving them rights to unionize the casinos.

Convoluted, politicized deals like this one illustrate beautifully why politicians should stay out of the economic development game. Let's hope the governor doesn't kill Buffalo in the name of aiding the Indians.

—**Matthew Carolan** *is a columnist for* Newsday.

## ECONOMIST VOUCHES FOR VOUCHERS

Fresh research by Duke University professor Thomas Nechyba demonstrated that providing school vouchers to poor families would produce great benefits for children, without harming public schools. At a conference hosted by the American Enterprise Institute, economics professor Nechyba reported that his investigations found little evidence vouchers would bleed money away from government schools, as opponents worry. Because of today's lack of school choice, wealthier families move to areas with the best schools, Nechyba finds, leaving lower-income families behind. The main reason these parents tolerate bad schools, he says, is "because they cannot afford to live anywhere else." With vouchers, families could remain in areas with lower-cost housing and still send their children to decent schools.

Nechyba sees many benefits from vouchers, not limited to improved schooling. Separating school quality from residential location, for instance, would encourage investment in poor areas. There would no longer be such a premium on living in expensive districts, reducing socio-economic segregation.

Contrary to popular belief, vouchers would neither take resources away from public schools, nor necessarily lead voters to cut public school spending. Nechyba expects, from his research, that spending in lower-income districts would actually increase with vouchers. Spending would decrease only in some high-income districts.

Overall, vouchers could deliver significant benefits to both U.S. education and neighborhood health.

—**Anne Beaumont** *is a former* TAE *intern.*

## WHAT'S A NICE FIREARM LIKE YOU DOING IN A PLACE LIKE THIS?

Michael S. Brown, a member of Doctors for Sensible Gun Laws, recently informed us that college gun clubs are enjoying a mild renaissance, even in the unlikeliest of places. Mount Holyoke, a Massachusetts women's college, now has a club for students interested in armed self-defense (a fact the *New York Times* decried on its editorial page). At Reed College, a famously "alternative" school in Portland, Oregon, two female students recently founded a Shooting Sports Club. The Maryland Institute College of Art has a popular MICA Gun Club. President Justin Sirois describes it as a "work of art" in itself, and a refutation to the "sissy" stereotype of art students. Meanwhile, the Harvard Law School Target Shooting Club, formed last fall, boasts about 115 members.

## UNION FOR ELECTIONEERS

Meeting in New York at the end of May, AFL-CIO chieftains voted to increase union dues on all their members, from now through 2005, in order to fill their war chest with $33 million to be spent during the next election cycle. For recent elections, the federation had implemented special annual charges for politicking ($2 on every union member in 2000, to help cover $42 million in spending during that year's election). Now the money will be accumulated as a regular part of union dues.



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Grover Norquist

# Reaganizing the Republicans

AP/World Wide Photos/Pete Souza

When Ronald Reagan took the oath of office in 1981, there were very few Reaganites in Washington. Even congressional Republican leaders were not active supporters of Reagan's drive for a less intrusive government and freer markets. Senate Majority Leader Howard Baker of Tennessee called the new President's 25 percent across-the-board tax cut "a riverboat gamble," and House Ways and Means ranking Republican Barber Conable explained that he "wasn't really for" the reduction. The model for a Republican politician in the minds of most Republican congressmen was still Richard Nixon, or even Nelson Rockefeller.

David Hoppe, who served as Jack Kemp's chief of staff in the 1980s and now fills the same position for Senate Minority Leader Trent Lott, says it was not until 1985 that a majority of the House Republican caucus would see themselves as Reagan Republicans, and not until after the 1994 election that Reaganites would constitute a majority of Senate Republicans.

Today, more than 90 percent of House Republicans (all but about 20) and 80 percent of Senate Republicans (39 out of 49) can essentially be characterized as Reagan Republicans. One good measure is that 205 House Republicans and 38 GOP senators have signed the Americans for Tax Reform pledge to vote against tax hikes. Meanwhile, George W. Bush ran successfully in 2000 as the quintessential defender of the Reagan coalition.

Before Reagan's election it was difficult to shame a Republican senator or representative into voting more conservatively. But Reagan was a big winner. And over time, most House and Senate Republicans moved toward his positions, or were replaced by younger politicians who did. In Washington, the Reaganization of the Republican party is now nearly complete.

Unfortunately, a quick inventory of the 27 Republican governors finds a very different reality at the state level. The few Reaganite governors who oppose tax hikes, work to reduce spending, challenge labor union bosses, and promote choice in education include Jeb Bush of Florida, Bill Owens of Colorado, and Frank Keating of Oklahoma—then the pickings get slim. Many Republican governors have fought for one or two conservative initiatives, but few have pressed a broad conservative agenda.

Only eight governors have signed ATR's no-tax-hike pledge, and these include two who actually raised taxes while in office (Democrat Don Siegelman of Alabama and Illinois Republican Jim Ryan). Tennessee GOP governor Don Sundquist has spent four years trying to impose an income tax on Tennessee. Michigan's John Engler fought school choice and spent political capital to tax interstate catalogue and Internet sales.

Of the 3,655 Republican state legislators, fewer than one third have signed the no-tax-hike pledge. More concretely, recent years have seen state and local government spending grow faster than the economy, even as GDP grew more quickly than federal spending from 1995 to 2001.

Why has Reaganization not yet spread more fully to the states? Spending restraint should actually be easier for state governments, who have no ability to inflate the currency and far less ability to run yearly deficits. And in 11 of the 50 states, there is unified Republican control of the governorship and both houses of the legislature—something Reagan never had, and George W. Bush enjoyed only for the first five months of his Presidency.

Governors and state legislators today are where Republican congressmen were pre-1980: They have no role model. There is not a Reaganite governor who also has a state legislature willing to enact serious reforms. State-level Republicans present the same defense as pre-Reagan congressmen: "At least I am better than the Democrat I defeated."

But this will change after November 2002. There are at least seven states that may elect Reaganite governors and state legislatures. Those are Florida, Kansas, Arizona, Montana, Michigan, New Hampshire, and Texas. Even if only a few of these states win unified control for conservative governance, a Reaganite model is likely to emerge.

Examples matter. A successful Reaganite state government could pioneer new conservative policies across the board. It will only take one state to move the Reagan revolution to the state level. On November 5, 2002, we may get several.



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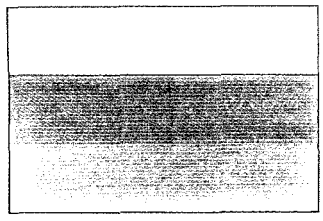
# Forward Observer

James Glassman



## A Russia to Love

There's a saying about new technology: that it is overestimated in the short run, but underestimated in the long run. The same may be true of countries like Russia.

The red flag went down over the Kremlin on Christmas Day 1991, and by the end of that month, the USSR had vanished. There were high hopes in the West, but lawlessness, moral decay, and economic collapse followed. In 1998, Russia defaulted on its debt, creating an international financial crisis. Since then, most of the world has paid little attention to Russia, figuring that it would remain an economic backwater.

Instead, Russia is reviving. Gross domestic product grew 8 percent in 2000 and 5 percent in 2001. Its stock market was the most fervent in the world last year, and rose 48 percent (in dollar terms) during the first four months of this year. Inflation and interest rates are still high, and Russia owes foreign lenders $40 billion. But as a banker at a business conference in London recently put it, "The fundamentals of the Russian economy are pretty sound."

Why? President Vladimir Putin has realized that Russia has to create a friendly environment for business. He's made changes in the legal system to make it more reliable and fair, and he has emerged as the world's leading advocate of lower taxes, putting even George W. Bush to shame.

At the beginning of last year, Russia adopted a 13 percent flat tax on personal income. There's no capital gains tax on stocks, bonds, or home sales. Interest on government bonds is exempt from taxes, and corporate dividends are taxed only once.

The lower rate, limited deductions, and simpler system have produced *higher* tax revenues (as supply siders predict). Vastly higher. Preliminary data show that 2001's lower flat tax rate raised 28 percent more revenue—after adjusting for inflation—than the higher graduated rates raised the year before. Russia now has a budget surplus. Starting in 2002, Russia also cut the corporate tax from 35 percent to 24 percent, and Putin has proposed giving small businesses a choice of either paying an 8 percent flat tax on their revenues or a 20 percent flat tax on their profits. The Russians now have the best tax system in Europe, and are showing us all the path to a better way of raising revenues.

Putin has also become the world's most articulate spokesman for free markets and smaller government. White House speechwriters should study his April 18 State of the Nation address—ignored by the world press—as a model of clarity, candor, and intelligence. The translation probably doesn't do these passages justice as rhetoric, but they are impressive as ideas:

*On self-reliance*: "Competition has now assumed a genuinely global character.... The main thing now is to create conditions in which the citizens of Russia can earn money and, while deriving advantage for themselves, invest it in the economy of their own country.... At the moment, the country's colossal potential is being blocked by a cumbersome, inflexible, and ineffective state apparatus."

*On the legal system*: "We need courts which are respected both inside and outside this country. This is not just a political task; it is very much an economic one.... An efficient court system is essential so that both Russian and foreign companies can have no doubts about its authority and effectiveness."

*On trade*: "I would like to point out that the WTO is not an absolute evil, nor an absolute good. It is not a reward for good behavior. The WTO is a tool. Those who know how to use it become stronger."

*On technology*: "We need to help Russian developers join the world venture market, the capital market, which ensures efficiency in the sales of scientific products and services.... Conditions should be created for the healthy commercialization of applied science, and one of the ways is to set up joint ventures, both in Russia and abroad."

*On being world-class*: "Best practices worldwide [are] a most important criterion of success—best practices in everything.... We must make Russia a prosperous and affluent country, so that living here is comfortable and safe, so that people can work freely, earn a living for themselves and their children, without restriction, so that they aspire to come to Russia, rather than leave it."

All this from the president of Russia in the year 2002. Just a dozen years ago, who would have believed it?



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"Live with TAE"

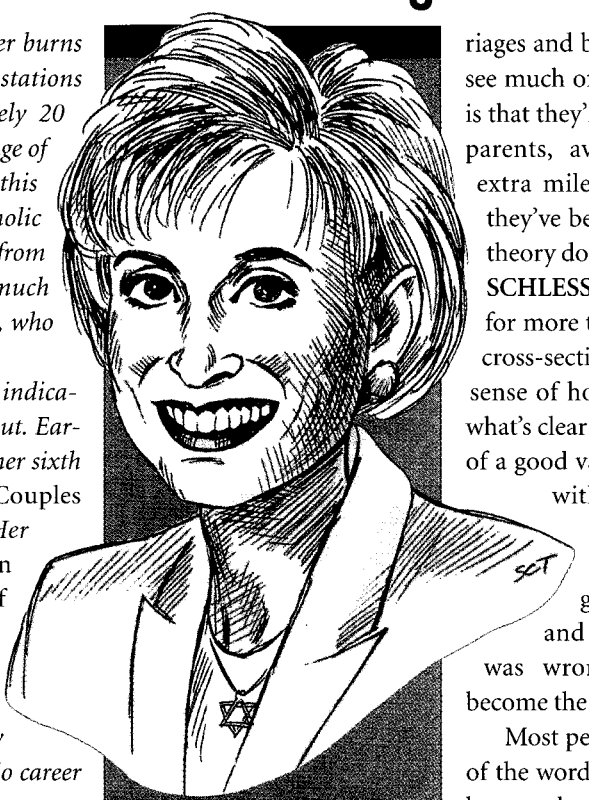
*She's a national sounding board, a fierce defender of traditional virtues, a Dear Abby who still believes in spanking wayward advice seekers. Here is America's common-sense disciplinarian for the twenty-first century.*

# Laura Schlessinger

*Every day of the week, Laura Schlessinger burns up the airwaves on close to 500 radio stations across America—reaching approximately 20 million people, at last count, with a message of personal responsibility. To her listeners, this daughter of a Jewish father and Catholic mother becomes "Dr. Laura" (the Ph.D. from Columbia is in physiology). "I pretty much preach, teach, and nag," says Schlessinger, who is now an Orthodox Jew.*

*If ratings and bestseller lists are any indication, people love to have her chew them out. Earlier this year, Schlessinger, 55, published her sixth national bestseller,* Ten Stupid Things Couples Do to Mess Up Their Relationships. *Her other chart toppers include 1999's* The Ten Commandments: The Significance of God's Laws in Everyday Life, *co-authored with Rabbi Stewart Vogel.*

TAE *associate editor John Meroney interviewed Laura Schlessinger recently in Los Angeles, where she started her radio career during the mid 1970s, and still lives today.*




I'm trying to motivate people to be warriors in their own lives, to fight for themselves, their ideals, and their families.

**TAE:** In the months after the terrorist attacks of September 11, it appeared Americans were working harder at their marriages and friendships, that we were trying to be better neighbors. Did you see any evidence of this in your contact with your national audience?

**SCHLESSINGER:** Yes, I did—but only initially. The country seemed to really want to concentrate on what matters most in life. But now, the reports about the war against terrorism have an international dateline on them. The economy has recovered. And as far as I can tell, people are back to upsetting their lives again.

**TAE:** One theory says that the children who grew up in the aftermath of the sexual revolution will find it difficult to fashion stable marriages and be good parents, because they didn't see much of that growing up. The other theory is that they'll repudiate the experiments of their parents, avoiding promiscuity and going the extra mile to have solid marriages, because they've been burned by the downside. Which theory do you subscribe to?

**SCHLESSINGER:** Well, I've been on the radio for more than 25 years, and I hear from a real cross-section of humanity. I have a pretty good sense of how America's pulse is beating. And what's clear to me is that there's a broad absence of a good value system. Young people shack up with each other and use abortion as a form of birth control, and they don't think that is bad behavior. In my generation, lots of people rebelled and lived that way—but they knew it was wrong. Unfortunately, rebellion has become the norm in today's culture.

Most people can't even tell you the meaning of the word courtship any more. Courtship has been replaced by "instant intimacy." In the place of romance, there's "hooking up"—having sex before you even know the person's middle name. This doesn't have anything to do with being in love. Ideals, goals, and promises aren't part of the picture. People aim for *having* without true *giving.*

Of course there was flirtation in the old days—but there was also a time to discuss religions, careers, families, and philosophies. Dating used to be about taking time to learn about another person in enough depth to decide *whether* to become intimate. Today, some young people believe chastity means confining oneself to just oral and anal intercourse. Thank you, President Clinton.

**TAE:** Who aside from Bill Clinton is to blame?

**SCHLESSINGER:** There are several culprits.

Illustration by Sam Torode



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Among the most guilty are parents. Too many either didn't get married, or they married and divorced. In many homes, young people saw boyfriends and girlfriends constantly coming in and out of their parents' lives. When there's this kind of chaos, it shouldn't come as a surprise that young people are rudderless when it comes to knowing how to make a relationship—and especially a marriage—really work.

**TAE:** Is there an opposite, positive, effect from having people like George and Laura Bush on our TV screens instead of the Clintons?

**SCHLESSINGER:** The Bushes have been very positive role models. They've given voice to people who favor strong family values, and that's good because those people aren't nearly as assertive as the ultra-liberals have become. Decent families just try to get on with their lives, while the radical activists slowly take over.

**TAE:** But almost every one of your books has been a heavy seller. Doesn't that suggest the country is in cultural recovery?

**SCHLESSINGER:** Not necessarily. People with whom I share views have always been out there, and they're very grateful that I have the guts to speak out for their beliefs. What I'm trying to do is reinforce the kinds of values that give people meaningful lives. At book signings, people will sometimes say, "You've changed my life." Some even say, "You've *saved* my life."

**TAE:** Over the last several years, there's been some encouraging hard evidence. Divorce has declined, two-parent families have revived by 10 percent over the last five years, and even the use of day care by mothers of infants is down slightly for the first time in decades. Don't you see reasons to be optimistic?

**SCHLESSINGER:** Now you're talking about my personality. Some people are more positive than others. I believe that the forces disintegrating traditional families are very powerful. The energy and commitment pushing in this direction is increasing.

**TAE:** How much fault does Hollywood bear for corrupting traditional concepts of romance?

**SCHLESSINGER:** It's been very destructive. Children are surrounded by media, and most of what they see celebrates all the wrong things. There are very few stars who get married, stay married, have children, and actually take care of the kids themselves. Then there are many who are not heterosexual.

Decent families just try to get on with their lives and mostly avoid politics, while radical activists slowly take over. The National Organization for Women has been taken over by females who aren't interested in the hetero-sexual track.

On the other hand, many old TV shows were great. To me, it's like nails on the blackboard when someone makes snide comments about "Leave It To Beaver." I really grew up in a family like that, and so did many other Americans. There were a mommy and a daddy who loved each other. They took care of the home *and* their kids. There wasn't violence. There wasn't alcoholism. I wonder why that depiction of family life is often attacked so vociferously, while some radical extreme things go without any criticism whatever.

**TAE:** Given that you live in and broadcast your radio show from Hollywood, how would you characterize most of the people, especially the executives, who work in the entertainment business?

**SCHLESSINGER:** They're bottom-line people. Profit is their main motive. There aren't any principles beside that one. The rare person who has wholesome principles better keep his mouth shut, or he won't find work. If there's an executive who says, "I really don't want to do this project that could make us $10 million because I don't think it's good for kids," he'll lose his job the next day. That's nauseating.

**TAE:** What's your favorite romantic movie?

**SCHLESSINGER:** *The African Queen,* starring Bogart and Hepburn. It's one of the most romantic films I've ever seen.

**TAE:** The runaway success of pictures such as *Toy Story, Shrek, Monsters, Inc.,* and *The Rookie* show that when Hollywood wants to, the industry can turn out smart, popular entertainment that's also morally wholesome. Why don't they do it more often?

**SCHLESSINGER:** Their impulse to spread vulgarity, violence, and mayhem can often be even greater than their interest in making money.

**TAE:** Do you allow your teenage son to watch TV and movies?

**SCHLESSINGER:** I'm very old-fashioned when it comes to discipline, and I believe that the more involved and invested you are with your children, the less likely they're going to be inundated with garbage. When children are left alone, they soak up what's out there. So my son can watch certain movies—violence I don't worry about. Deryk has his head on straight. Violence doesn't influence him. But you have to know your child.



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**TAE:** How about movies that are R-rated because of sex?

**SCHLESSINGER:** No way. I want him to value women, relationships, sex, and motherhood. If someone watches a lot of screwing, I don't see how that makes him look forward to meeting a woman and having a relationship with depth and merit.

**TAE:** In your latest book you list things that people do to hurt their marriages, including not being accountable for bad behavior, seeking stimulation and assurance from the wrong places, and being too controlling. What in your view is the thing that more than any other leads to divorce?

**SCHLESSINGER:** If I had to name one—which I hate doing—it would be narcissism, a view that says, "The world exists to serve *me*. *I* need to be happy. *I* need to be fulfilled. *I* want my needs met. *I* want my spouse to do what *I* dreamed he would do. *I* want to be satisfied." A view that's all about me, me, me, me, me. That is the number one reason relationships don't work.

**TAE:** Southern Baptists and people who belong to nondenominational Christian churches are usually strong champions of marriage, yet those groups also have pretty high divorce rates. How do you explain that?

**SCHLESSINGER:** I explain that because they're not really embracing their religions. You can call yourself a Jew or a Christian, but it's not the same thing as living it. Synagogues are now overrun with rabbis who argue that none of the figures in the Bible ever existed. Churches and synagogues have been taken over by forces that undermine the living of life guided by Scriptural principles. Those principles are what make one strive to go above and beyond base instincts. The bottom line is that religion in today's culture has dropped the ball.

**TAE:** How much of the advice you give is drawn from the Judeo-Christian canon?

**SCHLESSINGER:** All of it. Actually, there are two things that go into the mix of my advice: the Jewish and Christian traditions, and the human experiences of people who contact me. When a person tells about doing something that exploded in his face, and then says he should have listened to me or his mother, I go on a little bit of a tear. I'm not gentle about these things. Religious traditions are supposed to help people lead a life that avoids long-run pressures, problems, hurts, and losses, even if that sometimes cuts into today's fun.

**Hollywood's impulse to spread sexual freedom, vulgarity, violence, and mayhem can often be even greater than its interest in making money.**

**TAE:** Many listeners write to you with moving personal stories.

**SCHLESSINGER:** Well, the other day, I read a letter from a woman who said she had been leading a double life: On the surface she looked like this devoted wife and mother, but in reality she was out having extramarital sex. Now she's waiting for the results from an HIV test. She wrote, "I learned too late that there's meaning behind having good moral values." When a caller says, "I have three kids and was shacking up with my lover but now he's moved on with someone else," I'm hopeful that the young women who hear that will stop and say to themselves, "Living with a man and having sex with him doesn't guarantee me *anything*."

**TAE:** You say career-oriented people often destroy their personal relationships. Why?

**SCHLESSINGER:** All through the 1970s and '80s, *Ms.* magazine said that being a mother was a waste of time, a stupid and denegrating thing for a woman to do with herself. If she must marry someone, then don't rely on him for anything. Make sure you have your own independence. Power and career became everything. People who subscribe to that view only have children because if they have sex enough times, it's going to happen. Then they get nannies and babysitters.

**TAE:** You haven't been named "Mother of the Year" by any of the leading women's magazines.

**SCHLESSINGER:** They're selecting Rosie O'Donnell for that honor. She's not married, isn't straight, has adopted a whole bunch of kids, and has nannies for all of them. So on the basis of that, Rosie becomes the new icon for Mother's Day. That's what the average woman is reading. Rosie is what our young people are growing up with for an example. Today's so-called women's movement says that men are unnecessary, so when I'm on the radio, I'll ask, "What are you going to do with your male children? Drown them?"

The women's movement isn't being run by the average woman. The average woman is interested in a home, a husband, and children. The National Organization for Women has been taken over by females who aren't interested in the heterosexual track.

**TAE:** What happens to children who end up in



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too much day care?

**SCHLESSINGER:** The children become alienated, and eventually they won't know how to bond with others. Down the road, they will reason, "What I want to do is more important than what I owe anyone else." Everyone who's written me saying that they quit their CEO-track job or their law practice to be at home with their children reports that they see a change in them almost immediately. Their kids are warmer, happier, more cooperative, and relaxed. That's not theory.

**TAE:** Do you believe women should take responsibility for their own self-defense?

**SCHLESSINGER:** I think it's really good if we can protect ourselves. I have a black belt in martial arts. And if I could carry a gun, I would. But in Los Angeles, a civilian can't get a license to carry a gun.

**TAE:** Laura Schlessinger is a Jewish woman with a graduate degree, living in L.A. She's just the type who's supposed to feel put off and threatened by the small-town traditionalists in the American heartland.

**SCHLESSINGER:** No, they're my people. I feel a kinship with *them*, not with the cultural élites of both coasts. We share deep religious beliefs and a similar outlook on how life should be structured. With the exception of the way we view Jesus Christ, I'm just the same as a devout Christian.

**TAE:** Why are Jews so overwhelmingly in favor of abortion?

**SCHLESSINGER:** Most Jews are secular, not religious, and liberal Jews outnumber conservative ones. Orthodox Jews, however, are usually pro-life when it comes to abortion, but we make an exception if a woman's life is in danger.

**TAE:** If you could wave a wand and change two or three critical things about the nation's educational system, what would they be?

**SCHLESSINGER:** I'd completely eliminate the public school system, because it's become an indoctrination plant. Public schools now push all kinds of anti-American and anti-family philosophies. There are laws all over the country that make it legal to take children out of school in order for them to get abortions, sexually-transmitted disease therapy, contraceptives, and mental health care—all without parents knowing anything about it. I would never dream of putting my son in an L.A. public school.

**Religious traditions help people lead a life that avoids long-run pressures, problems, hurts, and losses, even if that sometimes cuts into today's fun.**

**TAE:** Do you support home schooling?

**SCHLESSINGER:** I believe it's become a bona fide alternative. I used to think it was quirky, but home schooling has made real progress. I'm also very supportive of private religious schools with high educational standards. Most are places where children are going to be disciplined, learn respect, and study.

**TAE:** Your position is that homosexuality is immoral. Has the traditional Judeo-Christian view of homosexuality been redefined as a "hate crime"?

**SCHLESSINGER:** Yes. That's how some people fight. They don't argue points, instead they make specious personal attacks. They brand anyone who disagrees with them a bigot and homophobe, and they use horrible negative epithets to frighten and intimidate people who oppose them on perfectly legitimate moral and medical grounds. And they've been very effective: The way they killed my television show is proof of their power. Homosexual activists still send me hate mail and death threats.

**TAE:** I've read that you didn't always lead the kind of life you now advocate.

**SCHLESSINGER:** Don't believe everything you read. I was never far off from what I now advocate. Any little experimentation I did took about a year and a half out of a life that's 55 years old. That gets exaggerated and taken out of context in order to shoot the messenger.

**TAE:** Are the letters you read actual letters, or are they e-mail messages?

**SCHLESSINGER:** The only way to reach me is to send a letter through the post office or by a fax. Several years ago, I noticed that when people started sending faxes rather than writing an actual letter, they were much more mean because it became less personal. It's kind of like when you make eye contact with someone in traffic: Usually people will let you in if you look at them. On the Internet it's even more exaggerated; there's this mob mentality. Pornography is the Internet's biggest industry, and the Ku Klux Klan and other such groups get great mileage out of Web sites because they can disseminate their venom more effectively.

**TAE:** Many people, even those who agree with you, describe you as having a harsh edge. Would not a softer tone, one that indicates sympathy as

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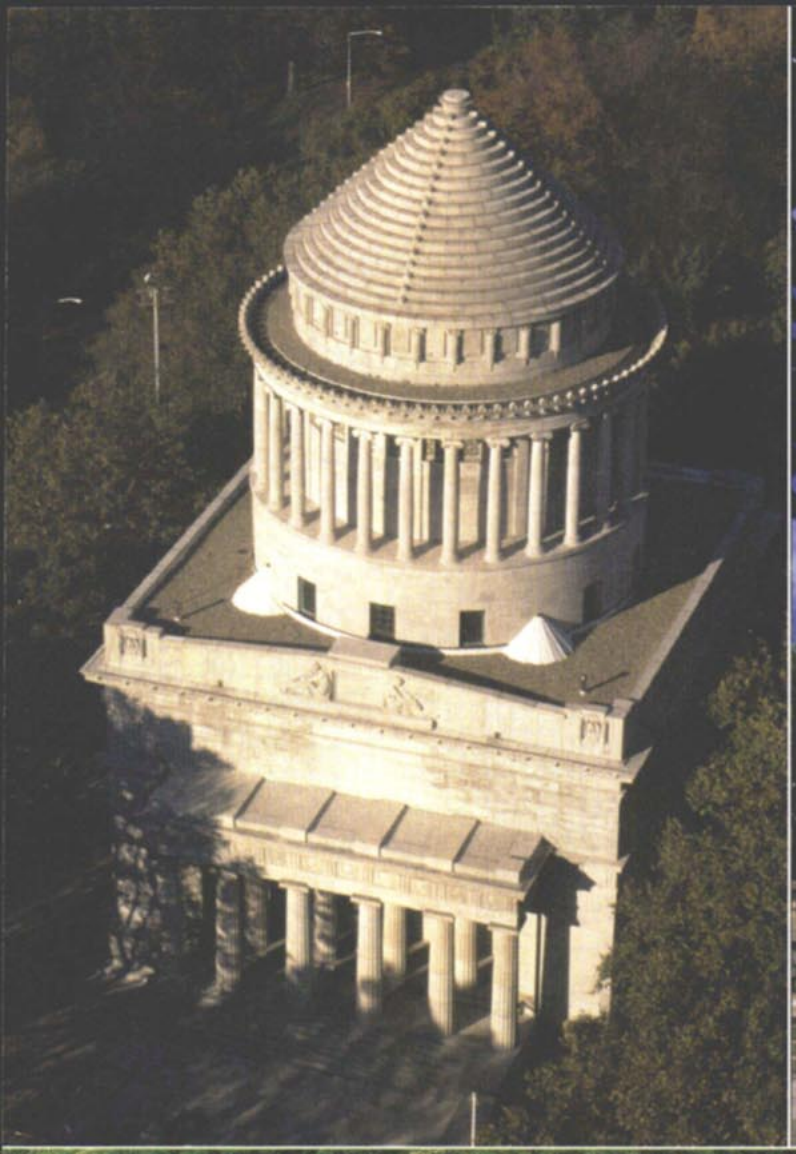

Left: Robert Holmes Corbis. Right: Lee Snider Corbis. Bottom: Bill Ross/Corbis

TOP LEFT: The tomb of Union general and President Ulysses S. Grant, in New York City.
TOP RIGHT: The Manhattan Soldiers and Sailors monument commemorates the 620,000 men killed in America's Civil War.
BOTTOM: Central Park's Bethesda Fountain was Frederick Law Olmsted's tribute to Union naval dead. It is topped by a haunting bronze statue of the "Angel of the Waters," drawn from the Gospel of John—a symbol of the healing power of nature.

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By Catesby Leigh

# An American Parthenon? Our Own Pantheon?

## Searching History For The Best Way To Commemorate September 11

he time is upon us to build our own Parthenon," prominent art historian Joan Breton Connelly recently suggested in a *Wall Street Journal* commentary. She referred to the great temple of Athena erected as a monument to the triumphant recovery of Athens from the devastation wrought by Persian invaders in 479 B.C. In the wake of the terrorist atrocities of September 11, Connelly observed, a similarly monumental gesture would seem to be in order.

But what does it mean to build a twenty-first-century Parthenon? Do you hire an architect or sculptor who operates on the assumption that modern times demand uniquely modern solutions? Or do you seek out designers who rely on the forms and conventions that have characterized the art and architecture of the West since the Greeks?

Until the Great Depression, there was a widespread consensus in favor of such cultural continuity in American civic art and architecture. This wholesome respect for the universal, time-tested qualities of classical art produced generations of handsome buildings—from the humble Spanish mission churches with their simplified baroque forms to the Roman grandeur of the Progressive Era's state capitols and train stations. Given the nation's recent, mostly disastrous, experience with memorials, that earlier consensus now looks like a matter of common sense. As the nation considers what sort of memorial might best do justice to September 11, the time is right to review some of the precedents. How have master designers commemorated grief, heroism, and noble sacrifice in times past?

Deeply moving expressions of pathos appeared in ancient Greek sculpture. On their tombstones and sepulchral *steles* (upright stone slabs with relief carving), the Greeks infused the tragedy of death into scenes of everyday life with unforgettable nobility. We encounter a man standing by his seated wife, who gently clasps the fringe of her garment and stares into space in anticipation of their fated separation. In another relief, a young man with a sorrowful little brother or servant beside him raises a hand in a farewell gesture, holding a pet bird in the other hand. Elsewhere, a youth with his favorite hunting dog sniffing the ground stares outward from the relief as his mourning father, leaning on a stick and clasping his beard, gazes at him, as if trying to fathom the meaning of his loss.

> Powerful memorials commemorating other great sacrifices lie at our fingertips, waiting to be emulated.

If you go to an old American cemetery, you are bound to encounter echoes of this legacy: images which rely on the human figure as art's most emotionally resonant form. You might well happen upon a memorial treated like an ancient *stele*, where a departed teenager is commemorated like a Greek youth. At Rock Creek Cemetery in Washington, D.C., a life-size bronze angel seated on a bench weaves a wreath of branches and leaves in her lap. An urn, the symbolic repository of the remains of the dead, stands in front of her. Seven relief panels adorning the curved granite bench show the stages of a man's life from infancy to death—including youthful love, labor, fatherhood, and the wisdom of old age. There is no reason why the tragedy of lives cut short cannot still be conveyed through such archetypal figures and scenes.

TAE *contributing writer Catesby Leigh wrote most recently for our January/February 2002 issue on traditional art and architecture schools.*



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Another powerful, century-old evocation of grief in the same cemetery is Augustus Saint Gaudens' celebrated Adams Monument (1886-91), with its mysterious seated figure utterly withdrawn within her thoughts and her shroud, which leaves visible only her face, neck, and one arm. She holds her hand cupped beside her cheek, with the palm turned inward, in a hauntingly enigmatic gesture. A short walk from the Adams Monument, a striking female figure leans gently against the bronze mausoleum door that separates her from her loved one. Her hair is beautifully arranged, and her drapery leaves a shoulder, much of her back, and her arms exposed. The grieving female's fine hands press against the door.

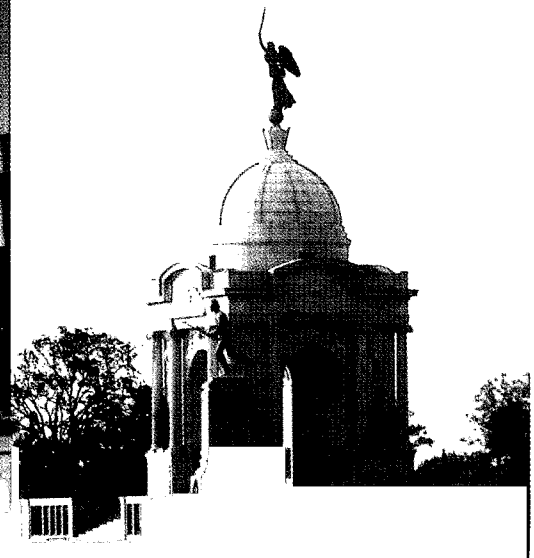
Another memorial in this cemetery includes a winged cherub asleep on a rocky ledge. Behind and above him, an anchor (a symbol of hope), flowers, and a cross fashioned out of two logs adorn the rock. The sleeping cherub, symbolizing new life as well as the slumber of the innocent, is a direct descendant of the sleeping Cupids of antiquity.

LIKE GROUND ZERO, THE GETTYSBURG BATTLEFIELD IS HALLOWED EARTH, AND HERE CLASSICAL ART HAS HELPED CONSECRATE THE SITE.

When seeking examples of earlier American memorials that powerfully embody loss and meditation, one can hardly do better than the pensive Civil War soldiers that keep watch over many of our town squares. One moving figure of this kind is the Confederate who stands atop a gracefully configured pedestal, arms crossed and hat in one hand, at a major intersection in Old Town Alexandria in Virginia (pictured at right). He looks down as if beholding the grave of a beloved comrade. This rebel is worthy of a successor in the form of a Gotham cop or firefighter.

The Civil War is the source of much of America's finest memorial art, and there is no better place to appreciate this than the Gettysburg battlefield. Like New York's Ground Zero, this battlefield is hallowed earth—consecrated by valor, suffering, and death. Here art has vastly enhanced the rolling landscape by means of great canonic forms: the winged angels of victory and peace, the equestrian statues of generals, the memorial columns and obelisks, the eagles, the wreaths, the relief panels depicting battle scenes. The battlefield's natural beauty is transformed by what Goethe called "a second nature"—a higher, idealized nature whose forms here symbolize a terrible struggle's transcendent significance.

The battle scenes as well as the numerous single-figure sculptures of soldiers add an element of realism that contributes to the landscape's power. In some of the regimental monuments, such figures are combined with architectural elements that lend formality to the vivid realism, as in the monument to the Fifty-fifth Ohio Infantry Regiment, with its kneeling sharpshooter carved into a truncated obelisk, and the Twenty-fourth Pennsylvania Infantry Monument, whose fallen standard-bearer is perched on a well-proportioned pedestal.



FAR LEFT: The Brooklyn Soldiers and Sailors monument, a glorious triumphal arch, is another Civil War memorial.
LEFT: The Pennsylvania Monument at Gettysburg battlefield is crowned by a great winged angel, and decorated richly with canonic forms representing peace, liberty, and victory.

Left: Catesby Leigh. Right: ©David Muench/Corbis

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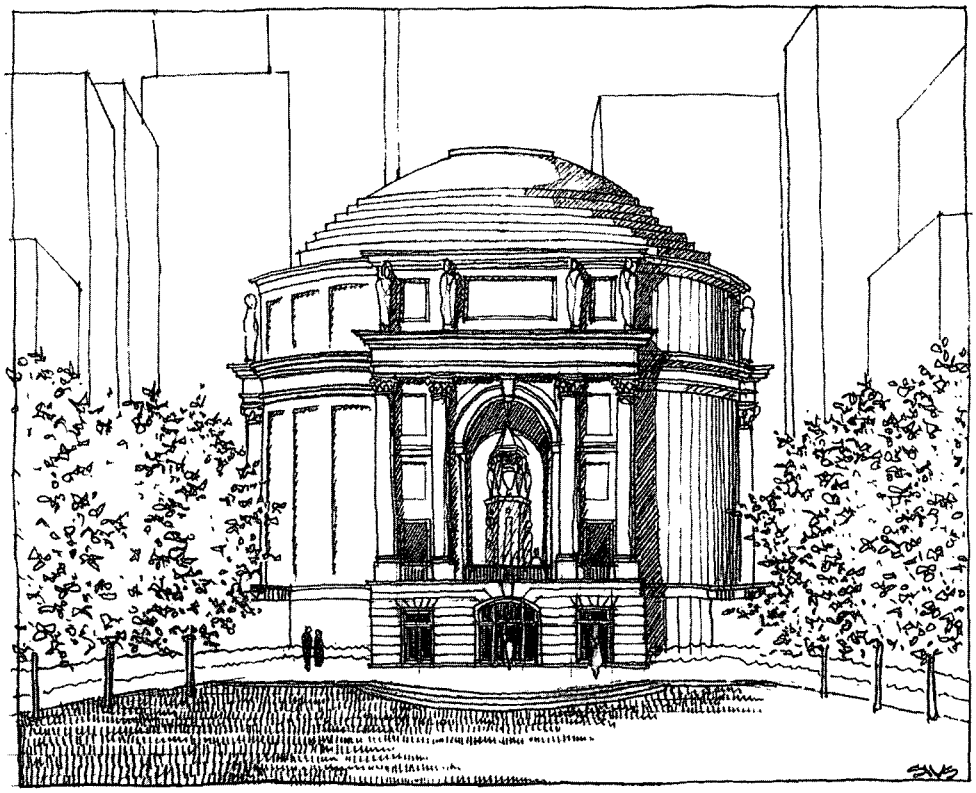
James Langley, Lower Manhattan Memorial Design Group



A proposed Ground Zero memorial modeled on Rome's great domed Pantheon, by Bailly, Mergal, and Semes.

The Gettysburg landscape was created by artists working from spiritual and artistic assumptions far different from those that today's mandarins are comfortable with. Those ancient assumptions inspired Daniel Chester French's heroic, colossal Lincoln seated in the Lincoln Memorial on the National Mall in Washington. This Lincoln is *not* like us; he is exalted far above us. He is part of an ideal world that has ennobled the American psyche.

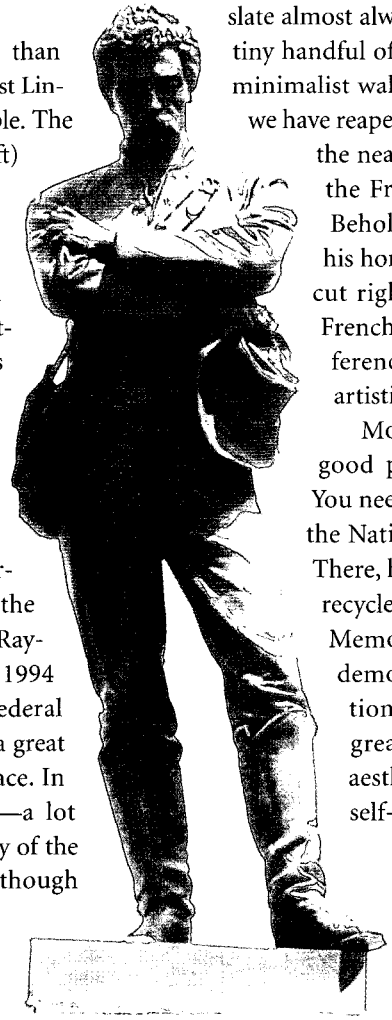
Frédéric Bartholdi's Statue of Liberty is another triumph embodying that ideal world. With her majestic mass and gorgeous drapery she is a descendant of the Athenas carved by Phidias and other Greek masters. Her classical pedestal augments her power. Many a viewer feels a sympathetic urge to raise an arm high at the sight of her thrusting that torch toward the sky, a gesture beautifully balanced by the weighty tome she cradles in her other arm.

Traditional monuments that are buildings rather than statues also generally rely on ancient prototypes. The august Lincoln Memorial in our capital is of course a classical temple. The Soldiers and Sailors Memorial in Brooklyn (pictured far left) is the nation's greatest example of the triumphal arch, a form developed by the Romans. Here, the abundant sculpture interacts beautifully with the formal, abstract lines of the architecture—a key to the power of classical design. Another Soldiers and Sailors Memorial, in Manhattan (see page 20), echoes an Athenian predecessor. It boasts fine ornamental carving that allows abundant interplay of light and shade—another classical characteristic. These models lie at our fingertips, waiting to be emulated.

In recent years, there has emerged a small but vigorous artistic counterculture—many of whose adherents are ex-modernists—that aims to perpetuate the glories of classical art. Take Washington, D.C. sculptor Raymond Kaskey. The dramatic forward motion of his 1994 bronze figure of Justice, perched on the facade of a federal courthouse in Alexandria, catches one's attention from a great distance, animating an otherwise humdrum urban space. In commemorating September 11, we could do worse—a lot worse—than erecting a great civic temple to the memory of the event, one adorned by a figure akin to Kaskey's, though equipped, perhaps, with a sword of vengeance rather than scales of justice.

Members of today's classical counterculture realize that attempts to invent an artistic language from a blank slate almost always result in failure. In exchange for a tiny handful of modernist icons, such as Maya Lin's minimalist wall at the Vietnam Veterans Memorial, we have reaped innumerable disappointments. Visit the nearby eight-acre disaster that passes for the Franklin Delano Roosevelt Memorial. Behold the wretched sculpture of FDR in his homemade wheelchair, with no pedestal, cut right down to size, a polar opposite to French's Lincoln—and you will see the difference between trendy and traditional artistic standards.

Moreover, modernist icons don't make good prototypes. They're one-shot deals. You need go no further than the other side of the National Mall from Lin's wall to see this. There, her black-granite-wall motif is ineptly recycled at the pathetic Korean War Veterans Memorial. The evidence of the senses demonstrates that art grounded in tradition and the demanding standards of great precedents yields a much higher aesthetic dividend than the concoction of self-centered visions.



This figure—casual yet grave—of a Confederate soldier (a memorial in Alexandria, Virginia) could serve as a model for tributes to the firemen and police officers who died on September 11.

Michael Curtis



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Which brings us to Ground Zero.

There are already several noteworthy classical proposals for memorials at the site. There will be more. One of those in circulation is a comprehensive 16 acre scheme by the architectural office of Franck Lohsen McCrery in association with the Scottish sculptor Alexander Stoddart. Published in *City Journal* late last year, this grand plan is centered on a two-block-long memorial plaza with a skyscraper at one end, and a domed railway/subway station, much lower in elevation, at the other. Towering statues of a pair of female figures endowed with the Statue of Liberty's broad contours—one holding a torch aloft, the other bearing a tablet—stand in front of the skyscraper, while statues of a policeman and fireman stand in front of the rail station. A long, slightly sunken expanse of grass, conceived as a symbolic burial ground, would extend between the skyscraper and the train station.

MANY A VIEWER FEELS A SYMPATHETIC URGE TO RAISE AN ARM HIGH AT THE SIGHT OF THE STATUE OF LIBERTY THRUSTING THAT TORCH TOWARD THE SKY.

James Langley's proposal for a large memorial figure for Ground Zero. The palms are symbolic of sacrifice.

Artist Elliott Banfield and architectural historian Henry Hope Reed have proposed a more compact memorial. Their plan would create a pedestrian plaza spanning one full block, flanked by grand arcades. Views would be focused on a memorial column crowned by a wreath-bearing angel.

A third, more recent scheme involves a memorial modeled on Rome's great domed Pantheon (see page 23). The designers, who include architects Marc Bailly, Manuel Mergal, and Steven Semes, along with sculptor James Langley, conceive the interior as a secular analog to Dante's Christian trilogy of inferno, purgatory, and paradise. If the site permits, their temple would include a crypt, possibly constructed of stout, archaic columns and roughly-finished stone, offering either a documentary display of the September 11 atrocities or, preferably, a dramatic sculptural portrayal of human beings exposed to terrible adversity and suffering amidst the struggle between good and evil.

On the temple's main level, a central sculptural element would embody grief. The designers envision a very large composition—a temple within the temple—surrounded by a circular pool. At this structure's polygonal base, female figures would pour soothing water into the pool from jugs; behind and above them, other such figures, standing erect, would serve as human columns, supporting the roof. A great urn would be plainly visible within, while the roof would be crowned by a fiery brazier, symbol of the human spirit, its flame rising up toward the opening in the great dome above.

The circumference of the great circular chamber of this Pantheon-like memorial could be decorated with figurative reliefs, evoking the tragedy of individual lives cut short, as with the ancient steles, along with scenes of rescue and compassion. Freestanding sculptures within this chamber might pay tribute to the heroes of September 11—whether generically or individually. Again, statues conceived along the lines of the Confederate soldier in Alexandria might be appropriate here. Decoration of the dome would convey a transcendent eternity in which the soul finds rest, whether by means of a grand Elysian scene of the sort New York artist Leonard Porter has been producing in recent years, or perhaps a celestial panorama.

So perhaps we should be thinking of building our own Pantheon for a September 11 memorial, not a Parthenon. But whatever we build, let's hope that the memorial is grounded in the wisdom of the ages—not the fads of the artistically benighted era from which we are now emerging.

James Langley, Lower Manhattan Memorial Design Group



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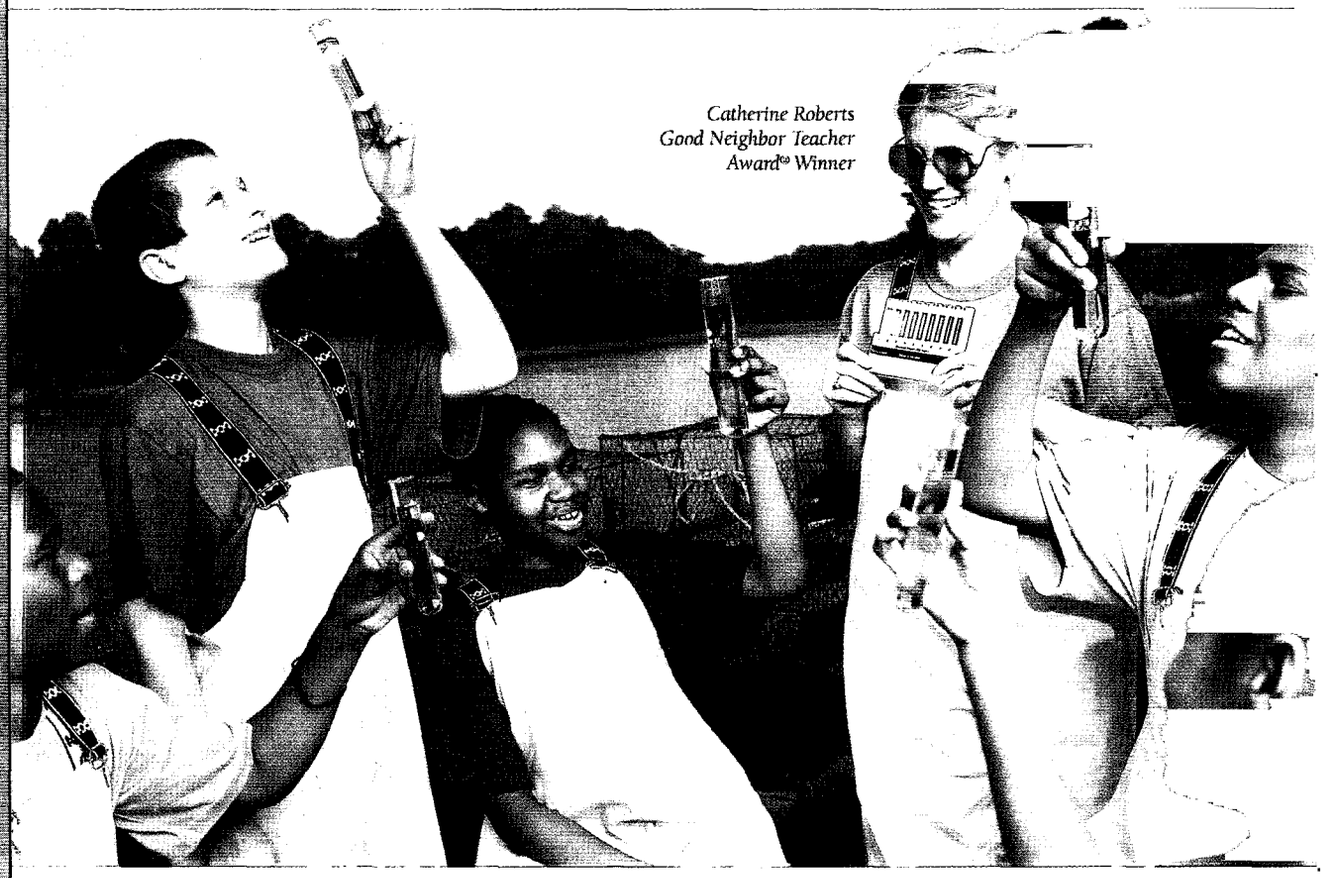

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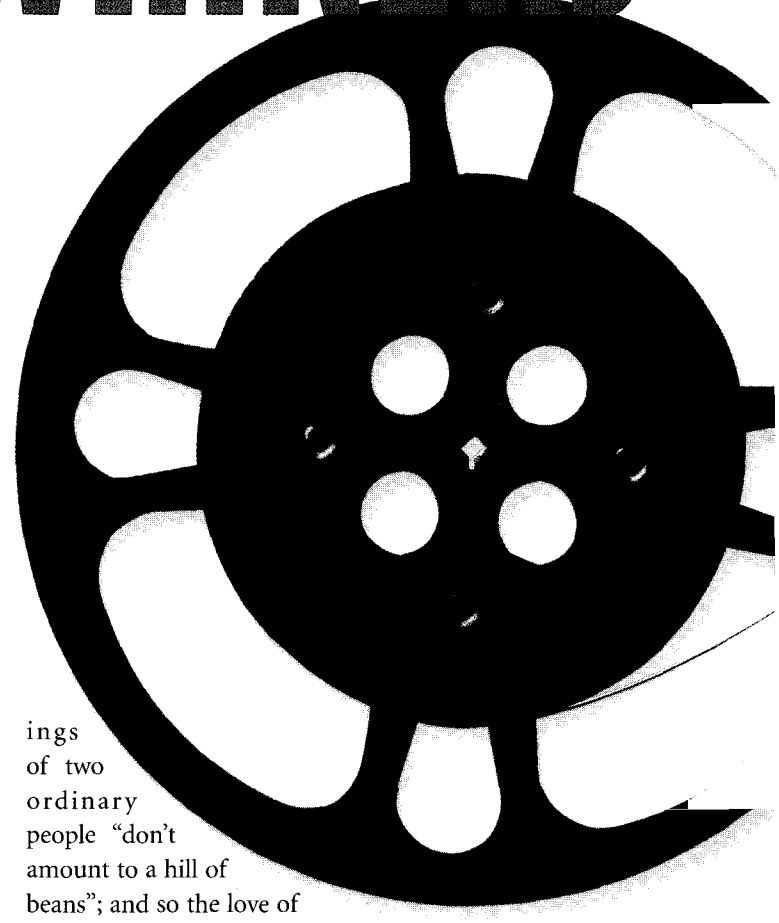
# WIMPS WHINERS WEENIES

## Men in Movies Today

By Don Feder



Run your eyes over this list and tell me what these men have in common: Mel Gibson, Russell Crowe, Arnold Schwarzenegger, Jean-Claude Van Damme, Liam Neeson, Pierce Brosnan, Paul Hogan, Jet Li, Chow Yun-Fat, Sean Connery.

That's right, they're today's top Hollywood tough guys, heart throbs, and macho men. But there's something else they share—they're all foreigners. Gibson, Crowe, and Hogan are Australian. Van Damme is Belgian and Neeson is Irish. Schwarzenegger was born and raised in Austria. Martial artists Chow Yun-Fat and Jet Li come from China. Brosnan and Connery are British. Why must the land of the free and the home of the brave import most of its on-screen testosterone? Where have America's strong male icons gone?

The problem goes even deeper than that. Period films—those set in earlier, pre-PC times, like *Gladiator* or *The Patriot*—continue to feature bold, decisive, heroic male characters. Among movies set in our present day, however, a viewer can't help wondering where all the real men are. Masculine traits are now mostly reduced to one of two extremes: The whiny wimp (in realistic dramas) or the battering thug (in action films). Bold, principled, noble men of the sort who thickly peopled the films of the 1930s, '40s, and '50s have nearly disappeared.

The contrast between the presentation of masculinity in movies today and those of the Golden Age of Leading Men is revealing. In my father's generation, lessons about how a real man behaves, learned first at home, were reinforced at the Saturday matinee. Movie men of that era were strong-willed, quietly confident, trustworthy, and protective of the weak. They had a code of honor. They were decent. They put principle before personal gratification.

Think of Rick in *Casablanca* (one of the most popular films of all time) telling Ilsa that in a world descending into madness the feelings of two ordinary people "don't amount to a hill of beans"; and so the love of his life leaves Casablanca with the resistance leader because the fight against fascism is more important than individual happiness.

Think of Jefferson Smith, Jimmy Stewart's character in *Mr. Smith Goes to Washington*, the idealist who confronts entrenched political corruption and is willing to see his reputation destroyed rather than buckle under to the machine. Consider the climax, where Smith, exhausted from filibustering for days on end, his voice cracking, recalls his father's words—"lost causes are the only ones worth fighting for." Smith comes to embody every hero who's ever faced overwhelming odds, determined to go down fighting rather than surrender to evil.

The movie has yet another masculine role model—Claude Rains's character, the venal senior senator who orchestrates Smith's downfall. In the end, Rains appears to have won. Smith has failed to sway the Senate, which is about to impeach him. But he's stirred Rains's conscience, who, racked with guilt, shouts out a confession. Answering the voice of conscience is this character's manly virtue.

*Don Feder is a syndicated newspaper columnist for the* Boston Herald *who watches too many movies.*



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Not every male character of the era was a Jefferson Smith. There were villains and cowards, dupes and fatally flawed figures, sometimes redeemed at the end, sometimes not. But mostly the leading man was, for lack of a better word, manly. He was John Wayne in *The Quiet Man*, the tough guy who won't be goaded into fighting, even for the respect of the woman he loves. He was Gregory Peck in *The Big Country*, the soft-spoken stranger who believes that courage is a private matter and declines to prove himself on cue to those who doubt his fortitude. He's Spencer Tracy as the one-armed war vet who fights a town of bullies to expose a racial murder in *Bad Day at Black Rock*.

He's Gary Cooper in *High Noon*—the marshal who, out of a sense of duty, refuses to leave a frontier town to its fate (and risks losing the love of his Quaker wife as well as his life), even though none of the townspeople will back him against the outlaws bent on settling a score. Again, he's John Wayne in *Angel and the Badman*, the fastest gun in the territory, who tosses away his pistol in the face of mortal danger at the urging of the woman he loves.

And, even though he was a rogue, when the chips were down, Clark Gable's Rhett Butler came through admirably, protecting the innocent and helpless in their hour of need—saving a mother and her newborn from the flames of Atlanta.

It's easy for sophisticates to sneer that such characters were stereotypes. But the generation raised on such "stereotypes" proved its mettle in real-life tests from Normandy to Iwo Jima. Throughout the course of history, the male psyche has been shaped by myths which, when internalized, become reality.

**Bold, principled, noble men have nearly disappeared from films set in our present day. Where have America's strong male icons gone?**

Since the late 1960s, though, the masculine hero has been in decline, with the exception of the cartoonish action hero. The staples of today's dramas are men who are insecure, hesitant, angst-ridden, self-centered, ineffectual, and immature.

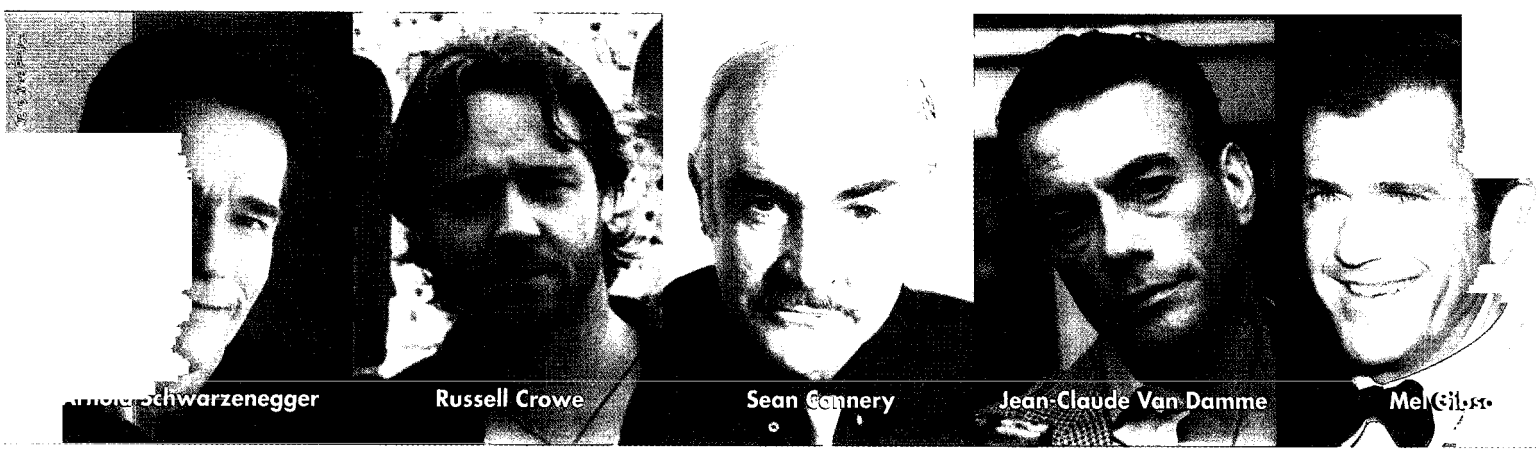
Jack Lemmon, who died last year, was pivotal in the transformation of male characters from noble to nebbish. The Oscar-winning actor, whose career spanned half a century, was the prototype of the new male character: a victim, a perpetual whiner, the businessman who is ground down by his corporation (in *Glengarry Glen Ross*), the perennial patsy (*The Apartment*), the victimized visitor (*The Out of Towners*), the out-of-work paranoid (*The Prisoner of Second Avenue*), the strutting coward (at least until the very end of *Mister Roberts*).

Lemmon's characters symbolized Hollywood's assault on masculinity. He was the first in a long line of neurotic, sniveling, useless males. Today's movie industry loves the type.

*American Beauty*, the film that won Best Picture and four other Oscars in 1999, is a perfect case study in male pathology. Kevin Spacey's lead character is yet another office worker pulverized by the corporate hierarchy, trapped in a boring, meaningless job he despises. His wife, who cheats on him with a Tony Robbins-type real estate hot shot, loathes him as a failure. His rebellious daughter is openly contemptuous of him.

In the face of these slings and arrows, our anti-hero rebels. His rebellion takes the form of regression to adolescence. He quits his job with a healthy settlement obtained through blackmail, buys an expensive sports car, smokes dope, and devotes himself to bodybuilding in an effort to seduce his daughter's cheerleader girlfriend. At one point, he admits that he wants to relive a time in his life where he had no responsibilities and all he cared

Why is America importing all this on-screen testosterone?

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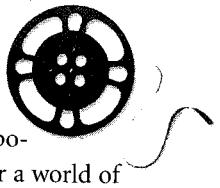
**The staples of today's dramas are men who are insecure, hesitant, angst-ridden, self-centered, and ineffectual.**



about was getting high and getting laid.

Like so many male characters of contemporary cinema, he's an adolescent who longs for a world of personal gratification devoid of obligation. Instead of solving problems, he drops out and sneers at the vacuity of bourgeois society. The movie ends with him speaking from beyond the grave about his "pathetic, little life." Both adjectives are appropriate.

It is telling that the most sympathetic male characters in *American Beauty* are a homosexual couple (who seem the most well-adjusted) and a teenage drug dealer who photographs dead animals and decides that evil can only be overcome by passivity. Besides Spacy's middle-aged Beavis, the principal male characters are a repressive and repressed retired Marine and the adulterous realtor who gives gross materialism and loose morals a bad name. This is Hollywood's view of American manhood circa the new millennium.

Director Stanley Kubrick's last film, *Eyes Wide Shut*, gave us a male lead who was more pitiful than contemptible. The movie's message was that we exist in a swirling vortex of sexual lunacy, which the sane man may escape only by chance. Leading man Tom Cruise is a successful Manhattan physician whose glamorous world is shattered by his wife's drug-induced confession that she lusts for other men. The revelation sets Cruise off on a night-long erotic odyssey that includes an encounter with a patient's daughter who's obsessed with him, an aborted liaison with a prostitute (who we later learn is HIV-positive), and a stop at a stylized orgy that almost ends in disaster.

Cruise is carried along by the currents of passion—a hapless observer of subterranean eroticism who's saved by sheer luck or the timely intervention of protectors. His good looks, wealth, and prominence notwithstanding, he is unable to affect his fate. At the end of the movie, the doctor and his wife reconcile out of mutual need. If the hero shapes his world, the victim is shaped by his. Underneath his surface trappings of success, Cruise's character is definitely a victim.

How does a young man express his manliness and escape from the humdrum of a materialistic yuppie existence? That's the question posed by *Fight Club*. Its answer is nihilistic violence—a bare-knuckles boxing club whose members beat each other to bloody pulps. The violence starts there and progresses to death threats, mutilation, building an army of urban guerrillas, and blowing up buildings.

The protagonist, played by the talented Edward Norton, has a job that's worse than meaningless. He's an investigator who helps an automaker determine if it costs less to recall unsafe cars than settle with victims' families. He fills his empty life by stocking his condo with goods from upscale catalog stores. To become the man he wants to be, he develops a split personality, with his other half a sharp, cynical bundle of bravado and hormones.

Despite the macho swaggering, his character remains an adolescent whiner who has no real idea of what it means to be a man. ("I'm a 30-year-old boy," he laments.) At one point, his alter ego muses that theirs is a generation raised by women, without proper male role models, so "another woman isn't the answer." Instead, the answer seems to be hard-case posturing and adolescent rebellion. The root problem is that Hollywood has no idea what defines the male of our species, or essential masculine behavior.

Comedies are no more manly than the dramas. The adjective most often applied to Hugh Grant, one of today's favorite actors for such films, is "boyishly charming." Charming he is, and boyish even more so: He is hesitant, confused, and bumbling. In *Four Weddings and a Funeral*, Grant ineptly pursues the woman of his dreams across a landscape of church services and receptions. We catch a glimpse of failed relationships. He has trouble committing. He has trouble keeping confidences. He has trouble expressing his feelings. Poor boy, he has trouble. In the end he stumbles into a life with Andie McDowell the way Cruise stumbles out of danger in *Eyes Wide Shut*. What's missing here is decisiveness, a man proving himself, taking a stand—being a man.

There are two exceptions to Hollywood's No Testosterone Zone—action flicks and period films.

Ask the average moviegoer who plays real men today and they will think of Sylvester Stallone, Chuck Norris, or one of the foreign film stars mentioned earlier. "Action heroes" are anything but whiny, passive, or confused. They burst on the screen with a hail of gunfire, a shower of flying fragments from an exploding building, or a blur of karate kicks. They are bold, daring, and resourceful, with an inhuman threshold of pain.

They're also unreal, and meant to be so. They are as one-dimensional, flat, and fantastic as comic book super-heroes. Critics never analyze the character of an action hero because there's nothing to analyze. The Schwarzenegger character is put upon, gets angry, and takes revenge—in spectacular fashion.

Because they're unreal, action heroes provide no challenge to the reigning Hollywood dictum that men must be angst-ridden, indecisive, and weak. They are thus an acceptable way of satisfying the public's desire for masculine characters who act tough and triumph after many trials. But theirs is an ersatz masculinity. The ability to inflict and endure pain, break bones, and rack up body counts is not the essence of masculinity. This is not what makes a man admirable and worthy of emulation.

The fact that today's action stars tend to be non-Americans makes them foreign in both senses of the word: They are not from this country, and they are also beyond the common experience. It's as if Hollywood (with its heavy feminist and gay influences) is saying to audiences: All right, if you have to have your caveman, here he is. But you won't find such men walking the streets of your cities, working in your offices, or living in your homes. There's rela-



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tively little risk of Americans actually marrying or emulating one of these steroid-enhanced, English-as-a-second-language lads.

The other exception to washed-out, morally ambivalent male characters in today's movies is found in the period piece—a movie set at least 50 years in the past. Films like *The Untouchables* (prohibition-era Chicago), *Last of the Mohicans* (the French and Indian War), *Gladiator* (Imperial Rome), *LA Confidential* (1950s Los Angeles), and *An Ideal Husband* (with its Edwardian setting and Victorian morals), are the last refuge of authentic masculinity in movies.

Many of these films contain vivid, admirable male characters. As Elliot Ness in *The Untouchables*, Kevin Costner exudes determination and decency. He is sworn to protect society's innocents in a city ruled by brutes. We have the juxtaposition of Ness as a happy family man, gentle with his loving wife and adoring daughter, and Ness the lawman, risking death to bring down Al Capone. Moral dialogue provides a context for the action, as when he tells a group of policemen that even if they've taken a drink in the past, he wants them to stop now. ("If we are to enforce the law, we must begin by obeying it.") Or when he shouts in the climatic courtroom scene: "Never stop fighting until the fight is over."

But none of this really challenges Hollywood's anti-masculine ethos. Yes, the industry seems to say, it was possible for men to be men back when there were such things as gangsters, hostile natives, or Nazis. But today we're confused. The old masculine virtues of fortitude, stoicism, and self-sacrifice no longer have value. Morality is in flux; everything is relative. The challenges of modernity are overwhelming. Who can say how a man should behave?

More fundamentally, Hollywood isn't quite sure what a man is. Gender interchangeability is taken for granted in contemporary films. There are often no specifically male or female characteristics. Except for social conditioning, men and women are said to be emotionally and psychologically identical. Especially in movies set in the present or future, women must be physically and emotionally fearsome. A spate of recent films have starred women warriors (*GI Jane*, *Starship Troopers*), female gunslingers (*Bad Girls*, *The Quick and the Dead*), women secret agents (*Charlie's Angels*), and female action heroes (*Lara Croft: Tomb Raider*).

If women must be men, what's left for men to be? In the real world, a man finds the ultimate expression of his identity in his relationship with a woman. A man (who is usually stronger and more able to endure physical hardship) is at his best when providing for, protecting, comforting, and loving a woman. If movie women are themselves fearless and indomitable, a strong man provides no contrast. All that's left for male characters is to wallow in their emotions, agonize over their fate, play the fool, and show their helplessness.

This may be what Hollywood wants, because it comports with its ideological vision. But it's not what the public wants. Even with popular stars and famous directors, movies with emasculated men tend not to do well at the box office. Still, the industry continues to churn them out.

When, on the other hand, Hollywood does supply a genuine heroic masculinity, the American masses come a flocking. *Gladiator*, with its noble Roman general, was a smash hit in theaters and is now the best-selling DVD of all time. Despite its power to affect popular attitudes, Hollywood doesn't seem to be changing many American minds about ideal male and female relationships.

How long will we have to wait before movies set in the present day are once again populated with real men—the kind we'd like our sons to emulate? Probably not until Hollywood begins to offer sympathetic portrayals of businessmen, born-again Christians, gun owners, and Republicans. In other words, not for a very long time.

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***SOCIAL SECURITY*** *continued from page 37*

1980s. After a flurry of reform in the 1990s, 22 countries now have at least partially privatized systems. Three more European countries are considering privatization proposals.

International experience shows that old-age pensions are one of the most politically difficult programs to reform, but that when citizens are given a choice, they overwhelmingly favor personal accounts. Consider Uruguay, where there are 600,000 contributors to the national Social Security system. While reform was being debated, polls reported that only 80,000 people would in fact opt for personal accounts. But when a private option was finally offered, more than 400,000 Uruguayans chose personal accounts.

In evaluating America's options in light of all this over-seas success, keep in mind that our nation has many advantages which ought to make our experience even easier and yet more profitable. With an enormous variety of investment vehicles already in place, and about 40 percent of the total value of world equities existing within our borders, the U.S. has the most flexible, honest, and well-developed financial markets in the world.

The high degree of development of a private pension system offers another advantage. In 1998, 41 percent of U.S. families had some type of private retirement account. This wide experience with retirement investing and financial markets means that a sizeable portion of the population is already well-grounded in the principles of managing personal accounts. In addition, the financial services industry has much of the basic customer-service infrastructure in place.

Meeting the needs of a growing retired population with a smaller workforce will present a stiff challenge for the United States. One part of the solution to the problem is to raise personal saving and investing by all Americans. And we have to start right away.



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# Capitalism Saves

## How becoming an investor can transform a person—and a nation

## The New Investor Politics

*By John Hood*

A new "investor politics" is growing in America. Its fundamental insight is simple: Policies encouraging personal saving and investment may help return America to its limited-government roots.

Widespread property ownership is essential for self-government, Aristotle observed. American thinkers from Thomas Jefferson to the present have argued that families ought to be as self-sufficient as possible, even in a modern industrial era. The truly "free person," suggests Ralph Borsodi, is not just someone with the tiny power of his vote, but rather someone "so independent" economically that he can "deal with all men and all institutions, even the state, on terms of equality."

The historical transformation of U.S. society from self-employed landowners to urban industrial workers did not further the principles of free enterprise. Instead, it encouraged government growth. But now that individual investing and accumulation of wealth are becoming majority practices, political behavior is being redirected again.

Today's explosion of profit sharing, stock investing, 401(k)s, IRAs, company pensions, educational savings accounts, mutual funds, on-line brokers, and low-cost financial advice is making self-reliance and economic independence ever more common in America. New and expanded institutions allow everyday workers to grasp the advantages of capital ownership that have traditionally been available only to the wealthy. Trumping Marx, American workers now own much of the nation's means of production, without sacrificing the separation of employment, ownership, and corporate management that is important to keeping U.S. businesses hardheaded and efficient.

Even on the left, economists and journalists now laud the emergence of a "shareholder nation." An increasing number of liberals and Democrats are likely to follow conservatives in emphasizing the economic importance and societal wholesomeness of measures that promote individual saving and investment. "If liberals like me are to get off the defensive and resume progress toward a more egalitarian democracy," writes left-wing economist Robert Kuttner, "it won't be via further redistribution, but through *wealth-broadening* in the spirit of Thomas Jefferson."

Many of America's older political distinctions—having to do with differences in cultural ideas, ethnicity, even geography—will certainly persist in coming years. But some of the deepest and most consequential political divides in the future will be between new rival camps with opposing views on the value and significance of personal investing. This political divide could be defined as Welfare Politics versus Investor Politics. Here are some of the differences:

- Welfare politicians encourage dependency. Investor politicians promote independence.
- Welfare politicians promise to remove risk from the lives of voters. Investor politicians promise only to help them manage risk and reap its rewards.
- Welfare politicians believe most voters are fundamentally incapable of saving, investing, and planning for their future needs, so government must perform these tasks on their behalf. Investor politicians believe that individuals can and should manage their own financial affairs, with the public sector in a clearly secondary role.
- Welfare politicians think government action is necessary to stimulate economic growth. Investor politicians think the private sector is a far better investor.
- Welfare politicians suggest that individuals should trust the taxing power of Washington to guarantee the resources they'll need for retirement, their children's education, buying a home, and handling medical or financial emergencies. Investor politicians suggest that individuals should rely primarily on wealth creation, insurance, and private financing for these big-ticket aspects of life.
- Welfare politicians think that large-scale investment is best accomplished through government action. Investor politicians favor moving as many such investments as possible—be they for schooling, highways, water and sewer systems, or health care—into the private marketplace, through the sale of assets, competitive contracting, public-private partnerships, and consumer-choice mechanisms.
- Welfare politicians believe that government should provide generous, long-term welfare benefits to the able-bodied poor. Investor politicians believe that such programs ensnare the poor,



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rather than helping them, and that government's role should be limited to the provision of short-term assistance in emergencies.

There are signs that some realignments away from Welfare Politics toward a new Investor Politics are already underway. Continued blossoming of Investor Politics in the twenty-first century is surely inevitable. The growing financial sophistication of individual Americans, and the mushrooming of government liabilities as the Baby Boomers age will make today's welfare-based transfer programs impossible to sustain. Reinventing them as savings and true insurance programs is likely to constitute one of the major parts of government policy over the next two decades. Let us hope so.

*John Hood is president of the John Locke Foundation, and author of* Investor Politics.

## Investors, Investors Everywhere

*By Scott Rasmussen*

Before World War II, only about a fifth of Americans owned stocks or bonds. Today, *half* of America's adults do. And even this number understates the size and impact of the nation's Investor Class, since many current non-investors expect to start investing in the future: Fully 71 percent of Americans are either investors now or expect to be soon (which is more people than are currently in the nation's workforce).

Throughout March of this year, my polling firm interviewed 1,000 adults each night on economic and investment matters, giving us a total sample of 30,000 adults and 13,844 investors to analyze in depth. We found that among persons age 18 to 29, 25 percent are already putting away savings, and 44 percent expect to in the future. Among 30- to 39-year-olds, the figures jump to 46 percent who are investors, with 28 percent expecting to be. The prevalence continues to rise with age.

Another factor that highlights the pervasive nature of the Investor Class today is that 58 percent of non-investors have family members or close friends who own investments. When all the numbers are put together, one finds that 88 percent of U.S. adults either invest, plan to, or have close friends and family members who do. Among those with a college degree, this figure jumps to 95 percent.

The cultural and political implications of such widespread familiarity with wealth building are staggering. At many social events, tales of stock market performance have replaced fish stories about the one that got away. As people enter their 30s, investing becomes close to the norm. A majority of those who earn $40,000 to $75,000 a year are investors, and among those earning more than $75,000, 82 percent invest.

So investors are no longer objects of wonder, envy, or scorn—they are the folks next door. The major reason why some people don't invest is simply a lack of available cash, not a lack of attraction. Only 7 percent of American adults now choose not to invest because they view it as too risky. Even fewer have any ideological or ethical objection. We live in a nation where becoming at least a minor capitalist is routine.

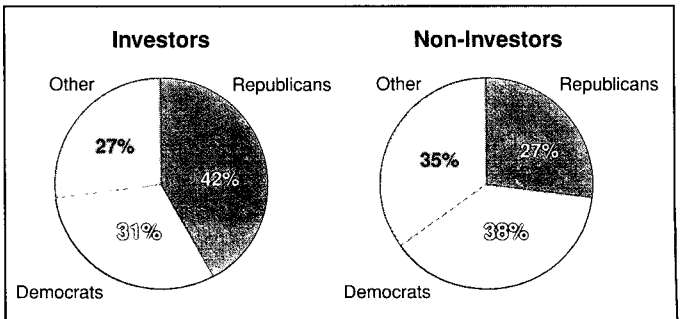
Some significant demographic differences do remain: While 50 percent of whites are accumulating wealth, only 28 percent of blacks are. (Another 34 percent of blacks expect to.) Likewise, 61 percent of college graduates are currently investing, compared to only 35 percent of those without a degree. When you add in those who expect to become investors, the numbers jump to 84 percent for college grads and 53 percent for those with a high school degree or less.

Government workers and private-sector employees frequently have different attitudes on national issues. Polling shows that government personnel are more likely to favor the Democratic Party and public spending, while those who are privately employed are likelier to vote for Republicans and support a more limited government. But when it comes to investing, you can hardly slip a knife between public- and private-sector workers: Half of both groups are investors.

Investors aren't necessarily pro-corporation. They demand accountability and performance from the businesses they entrust with their money. Sometimes, as Michael Barone has noted, investor politics devolves into a "struggle between the choice-making citizen-investor and the corporate insider." In our polling, investors were harsher in their assessment of Enron and Arthur Andersen executives that were non-investors, with 85 percent of investors stating that some Enron execs should end up in jail—a view held by 72 percent of non-investors.

There are political differences between investors and non-investors worth noting. In a March survey, I found that investors favor Republicans over Democrats (42 percent to 31 percent), while non-investors lean Democrat (38 to 27). It's significant that there are now far more Americans with large financial portfolios than there are union members—22 percent of the population owns at least $50,000 of stocks, bonds, or mutual funds, while only 11 percent of Americans are union members.

The questions we asked about investment *risk* provide reassurance about the underlying common sense of the American public. Lower-income Americans, retired Americans, and Americans with less education are all far more likely to prefer lower-risk, lower-return investments (as they should). It is younger



Source: Rasmussen Public Opinion Research, March 2002.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Americans, and those with higher incomes and larger portfolios who are more apt to pursue higher-risk, higher-return investments (again, this is rational and appropriate).

The pervasiveness of investing in America is changing politics and popular culture forever. Two generations ago, Wall Street and Main Street often weren't on speaking terms. Financial barons at times seemed to be lording it over their less affluent brethren. Today, on the other hand, Main Street investors *own* much of Wall Street.

*Scott Rasmussen is the founder of New Jersey-based Scott Rasmussen Public Opinion Research.*

## Investing's Rich Fringe Benefits

*By Andrew Biggs*

Policies aimed at turning more Americans into savers are primarily sold on economic merits. But the financial advantages of accumulating wealth may actually be less important to people than some of the *non*-economic effects. Academic research has uncovered social and psychological bonuses that accrue along with the dollars and cents. These benefits may represent one key to building more stable families and neighborhoods across America in the future.

Professor Michael Sherraden of Washington University in St. Louis has been testing the effects of Individual Development Accounts (IDAs) since 1997. These experimental accounts are designed to encourage saving and asset building among low-wage workers who ordinarily invest little, by matching individual contributions with outside funds 2-to-1. The pilot program has almost 2,400 low-income participants around the country who are slowly building wealth. Average workers put aside around $25 per month. When matched, this enables workers to save up to $900 annually. Over time, these savings can turn into the down payment on a house, college education for a child, the means to start a business, or a retirement income well above what Social Security alone could provide.

IDAs don't make the participants millionaires, but they do make them owners. And studies show that even modest amounts of invested wealth produce an unexpected stream of benefits. For instance:

- Asset ownership makes people more oriented toward the future, more confident, and more likely to take calculated risks. Savers feel more in control of their lives.
- Married couples who build up financial assets are less likely to divorce. Improvements in marital stability persist even after controlling for income, race and education. Account holders say they have better relationships with family members.
- Persons with savings are more likely to make education plans for themselves and their children. They perform better on tests and reach higher education levels, even after factoring out differences in income.
- Asset-holders enjoy better long-term health, even after making demographic adjustments.
- At the very same levels of education and income, mothers and children are less likely to live in poverty if the mother came from a family with asset holdings.
- Asset-owners have a higher level of civic engagement. One survey of more than 300 IDA participants suggests that many believe possessing assets helped them become more involved in their neighborhoods, or more respected by other community members.
- Many of these benefits appear to pass from parents to children. Parents who save are more likely to have children who save, even after other influences are considered.

**The sociological effects of investing may be even more important than the economic benefits.**

The effects of increased asset ownership on our political culture could mimic the changes that took place in 1980s Great Britain. Stressing "the importance of being an owner," Prime Minister Margaret Thatcher sold over 1.6 million government-owned apartments and houses to their occupants. This had salutary effects on the new owners, and also helped alter Britain's political culture. In the 1979 election, Conservatives increased their vote by an average of 39 percent in constituencies in which privatized houses made up half or more of the total housing. Socialism has now largely disappeared from British politics.

Perhaps the best opportunity for U.S. leaders to spur more saving and wealth-building among everyday Americans would be to establish personal accounts for Social Security. Rather than expecting people to scrape up extra income to put away, workers would simply be allowed to save and invest, in an account they would control themselves, a portion of the payroll taxes they already pay. The poor would not have to make any additional contributions, and would thus help build wealth where it is needed the most.

Last year's President's Commission to Strengthen Social Security proposed personal accounts where average workers could accumulate $100,000 to $175,000 by the time they retired. These funds would supplement traditional Social Security benefits, and could be passed on to spouses, children, or a favorite charity upon death.

With the majority of American workers as shareholding investors, there would likely be dramatic effects on attitudes toward business, the government, and people's individual stations in life. Perhaps most important, the latest research indicates that newly saved wealth would make Americans not only richer, but also happier, healthier, more familial, smarter, and more active citizens.

It is up to policymakers to turn this asset-building blueprint into a reality.

*Andrew G. Biggs is a Social Security analyst at the Cato Institute.*



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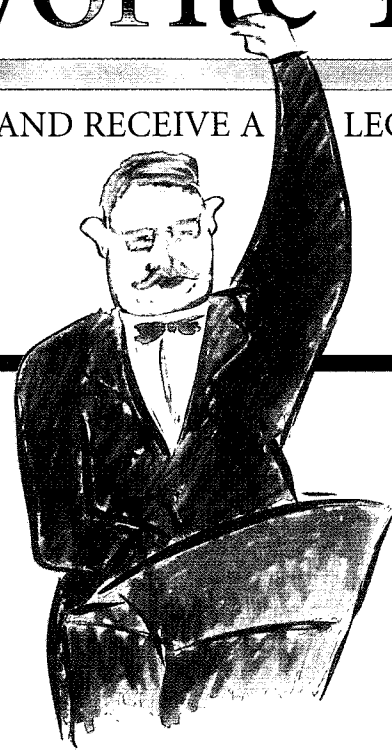

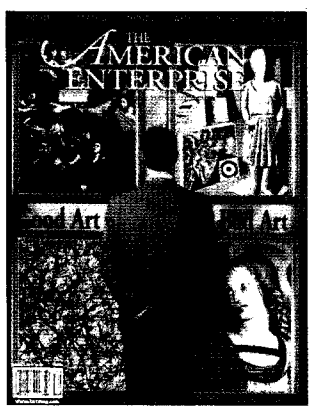


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# Modernizing Social Security

## Bring this Great Depression relic into the age of investing, or watch it collapse

**By Jeffrey Brown and Brian Jenn**

A monumental demographic shift is taking place in the United States: The number of workers per retiree in this country will fall from 3.3 to just 2.1 over the next generation. This puts tremendous pressure on our Social Security system. Within just 15 years, Social Security will start to run cash deficits, and by 2050, the benefits promised under current law would cost nearly 18 percent of the nation's payroll, while revenues would be just over 13 percent. That yawning chasm represents an unsustainable shortfall of several *hundreds* of billions of dollars a year.

The aging of our population will also wreak havoc in other parts of the federal budget. The portion of the nation's resources eaten up by Medicare (which provides government health coverage to the elderly) will zoom from 2.3 percent of the economy today to 8.5 percent by 2075. Absent dramatic reforms, Medicare and Social Security together will then consume more than 15 percent of the Gross Domestic Product. All personal income taxes currently paid to the federal government amount to only about 9 percent of GDP.

With federal spending on the elderly consuming a skyrocketing proportion of the nation's output, it is imperative that we take action now to lessen the economic burden on future generations. Social Security's finances must be balanced, which will require committing new revenue or slowing the rate of growth of traditional

*Jeffrey Brown served as senior economist at the White House Council of Economic Advisers during 2001-02. Brian Jenn is a staff economist at the Council. They wrote in greater detail on this subject in the 2002* Economic Report of the President.



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benefits. Younger Americans will have to take greater responsibility for their own golden years—by increasing their personal saving. Higher personal saving will have two benefits: It will stoke individual retirements by fattening the personal wealth older people have accumulated. And it will improve the economy as a whole: More individual saving means more investment. The larger economic pie will make it easier for the nation to pay for the soaring old-age transfers that lie ahead.

Contributions to individual accounts within Social Security may represent the only chance many families have to build wealth.

Personal saving for retirement can take several forms. Individuals may put away money on their own initiative. This can be encouraged through tax incentives, as with Individual Retirement Accounts (IRAs). Personal saving can also occurr through employer pension plans, which likewise receive favorable treatment under the tax code. Finally, personal saving could take place through a government pension system that allows individuals to steer some of their income into private accounts.

President George W. Bush has proposed to modernize and strengthen Social Security by creating voluntary, individually controlled personal retirement accounts that would augment the existing Social Security safety net. While personal accounts alone will not eliminate Social Security's financial woes, they do offer many advantages over the current system. Under such a

## Social Security Doublespeak

By Charles E. Rounds, Jr.

A Social Security "account" bears no legal resemblance whatsoever to a bank account. Social Security is not an insurance program. Social Security bestows no contractual or property rights on workers. There is no trust fund as that term is commonly understood, no funded segregated accounts, no IOUs or bonds stored away. These matters were settled by two U.S. Supreme Court cases years ago (*Helvering v. Davis* in 1937 and *Flemming v. Nestor* in 1960).

Legally speaking, Social Security is nothing more than an umbrella term for two unrelated schemes: a taxation scheme which vacuums up a noticeable chunk of every worker's compensation through a payroll levy, and a welfare scheme that sends monthly checks to millions of elderly people. The truth is, people who receive Social Security are mere welfare recipients—individuals with a hope or expectation of future benefits, but no enforceable right to them. The truth is that workers and their families have no legal claim on the FICA tax payments they make into the U.S. Treasury. Those funds are gone within days or weeks of when they are paid in, commingled with the general assets of the U.S. government and spent for whatever Washington is underwriting these days.

Politicians engage in horribly misleading doublespeak when it comes to Social Security. Al Gore went on about his "lockbox"; Edward Kennedy refers to Social Security as "social insurance." This leaves a confused public with the false impression that Social Security is already quasi-privatized, and that nothing needs fixing.

Of course, the Left strongly prefers the status quo. Any privatization would reduce the dependency of seniors on the state, and also trim the flow of tax revenues into government coffers. What better way to combat privatization initiatives than with private sector language?

The Right also obfuscates. It dances around the word "welfare," and talks instead of "promises" and "guarantees," because it doesn't want to insult the folks down at the senior center. Whatever those "promises" or "guarantees" may be in the politician's mind, they are not legally enforceable. One Congress cannot bind future Congresses when it comes to continuing a welfare program—which is, like it or not, what Social Security is. And it is inappropriate for politicians to call Social Security either "solvent" or "bankrupt." A welfare program funded by general tax revenues cannot go bankrupt because its sponsor is a governmental entity with the power to tax and print money, not to mention reduce or eliminate future benefits altogether.

> "Government can't create a trust fund by saving its own IOUs, any more than I could create a trust fund by writing '*I get a chunk of cash when I turn 21*' on a piece of paper. Social Security is just such a piece of paper, except it says, '*I get a chunk of cash when I turn 65, the government promises.*' Consult American Indians for a fuller discussion of government promises."
>
> —from P. J. O'Rourke's new book *The CEO of the Sofa*

Advocates of Social Security reform will be more effective if they tell the public the truth about the program. They should simply admit that a Social Security recipient is a welfare recipient, and that in this day and age the dole may not be the best way to achieve retirement security. Then they should ask the public to consider the advantages of the personal investment alternative. They may be pleasantly surprised by the response.

*Charles E. Rounds, Jr. is a professor at Suffolk University Law School.*



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system, a worker could direct a portion of his Social Security payroll taxes into an account over which the individual (and spouse) alone would possess legal ownership. The account owner would choose, from a variety of approved options, exactly how his money would be invested. Upon retirement, he could use his accumulated assets to purchase an annuity that would make level payments for the rest of his life, or he could make periodic lump sum withdrawals. In the event of his death, remaining assets would go to his heirs.

**Encouraging personal saving will have two benefits: It will improve retirements, and it will stoke the economy.**

And, individuals who choose to invest a portion of their payroll taxes into private accounts can expect higher benefits than are payable under current law. A combined system would therefore provide both the efficiency and safety-net aspects of traditional Social Security, and the advantages of wealth accumulation and personal choice that private investing allows. This combination of benefits does not exist under today's Social Security program.

While the introduction of personal accounts would represent the most significant change in Social Security since the program's inception, the idea itself is not new. In President Franklin Delano Roosevelt's message to Congress on Social Security on January 17, 1935, he stated that one of his hopes for the program was the addition of "voluntary contributory annuities by which individual initiative can increase the annual amounts received in old age." A system of personal accounts would appear to be the next step in the natural evolution of Social Security. Indeed, many other nations—from Chile to the United Kingdom to Australia to former socialist countries like Kazakhstan—have already beaten us to the punch and included personal accounts as an important part of their national retirement programs.

A Social Security system that includes personal accounts would have many advantages over the current set-up. Perhaps the most striking of these is ownership. In 1960, the Supreme Court ruled in *Flemming v. Nestor* that workers and beneficiaries have no legal ownership of their benefits, even after a lifetime of contributing to the system. Under today's Social Security, a worker's retirement income depends not on any hard assets held in his name but on the hope that future Congresses will raise taxes on the next generation of workers in order to pay his scheduled benefits.

An individual account, on the other hand, would be the property of the individual worker, who would be legally entitled to the assets in his account regardless of the financial situation of the government. That's real security.

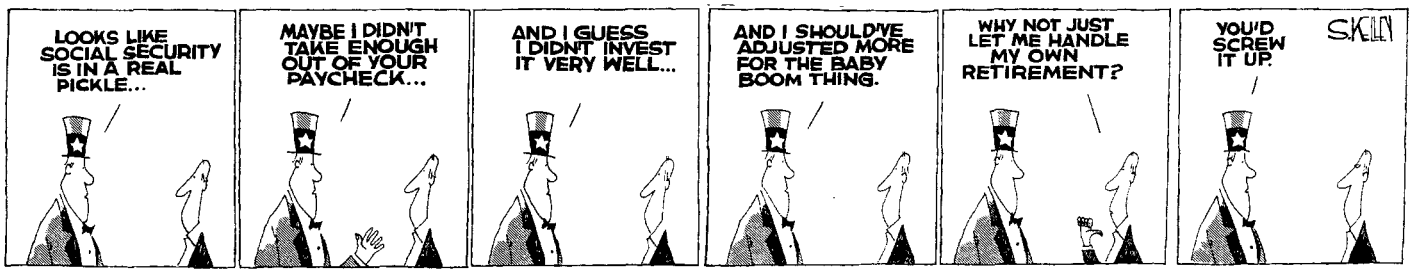
Asset ownership and wealth accumulation would be a positive new experience for many Americans. In 1998, the typical U.S. household owned only $17,400 of financial assets, including sums in retirement accounts. Four out of every nine households save *nothing at all* during a normal year. For many families, contributions to individual accounts within the Social Security system may represent their only chance to build private wealth.

Moreover, the experience of learning about and selecting investments, and observing the "miracle of compound interest" first hand, could inspire many workers to invest more broadly. Having broken through the psychological and informational barriers, research shows, many will enter further into the world of long-term saving on their own. Personal Social Security accounts could have important secondary effects on private saving and wealth accumulation.

Personal accounts could also be designed to help the poor. Even though Social Security uses a benefit formula weighted toward low-income people, the program ends up being a bad deal for many of the poor. The main reason is that lower-income individuals tend to die earlier. Since Social Security retirement benefits don't start until at least age 62, and stop at death, those with shorter lifespans often don't get much back compared to what they paid in. With personal accounts, people who die early could pass on their savings to spouses and children.

Another disadvantage of the current system is that it distorts the labor market. The Social Security payroll tax may discourage work among many low- and middle-income workers, and the payout structure pushes many still-sharp retirees away from jobs they would like to have. With personal accounts, all work would make the account grow, so there would be a greater incentive to stay economically active than there is today.

Establishing personal accounts also has the potential to raise the national savings rate. The only truly effective way to preserve a Social Security surplus is to put it safely beyond the grasp of those who would spend it for other purposes (as has been the fate of nearly all Social Security surpluses over the last couple of decades). If a significant chunk of Social Security

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payroll taxes were funneled into personal investment accounts rather than used to feed current government spending, the total stock of investment capital would be increased. That would produce faster economic growth—making it much easier to support the larger population of retirees in the future. It would also force our politicians to match current spending to current revenues, instead of siphoning off payroll taxes intended for Social Security for other uses.

Setting up personal accounts within America's Social Security system would put us in good company. The same retirement pressures we face have cropped up in other industrial countries as well. A rising number of countries have added personal accounts as a "second pillar" of their government pension systems. Switzerland, the Netherlands, and the United Kingdom instituted personal accounts during the

*continued on page 29*

## The X Bomb

By R.H. Sager

A political bomb is about to go off in this country, and it has nothing to do with terrorists.

Social Security is headed down the toilet faster than a 13-year-old's cigarette when the principal barges into the school bathroom. And it's Generation Xers who are going to get crushed when the pyramid scheme collapses, with huge limestone blocks of unfunded liability tumbling all around. So, not surprisingly, when Xers (the "yeah, right" movement) are told the government will provide for them in old age, their response is necessarily cynical.

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The polls are in, and it turns out that young Americans love the idea of pension privatization. In late January, Gallup asked this question: "A proposal has been made that would allow people to put a portion of their Social Security payroll taxes into personal retirement accounts that would be invested in private stocks and bonds. Do you favor or oppose this?" A smashing 77 percent of respondents age 18 to 29 favored the idea. That's in stark contrast to the 32 percent of people 65 and older who liked the idea.

The problem is: The geezers vote, the young whippersnappers don't. Roughly speaking, 30 percent of Xers go to the polls, compared to almost 70 percent of people over 65. So while the youngsters are more numerous, the elderly have the politicians' ears.

If personal accounts are going to be established within Social Security, advocates will have to start courting young people aggressively, and soon. The good news is, young people would naturally gravitate toward personal accounts. According to Richard Thau, executive director of Third Millennium, a kind of Gen X think tank based in New York City, the Gen X mindset when it comes to Social Security runs along these lines: "I've seen the government screw up many times. Based on what I hear about Social Security it seems very likely they're going to screw that up also. I've got to fend for myself."

Bruce Tulgan, founder of Rainmaker Thinking, a Connecticut consulting firm that has conducted in-depth interviews with young people for eight years, agrees that personal accounts speak to Gen X sensibilities. "Among most young people, there's a tremendous resurgence of the idea of self-reliance," he says. "You get a very strong positive response to any proposals that emphasize self-reliance and individual control." While he notes that how the issue is presented greatly affects public responses ("Would you like to see your retirement money invested in stocks such as Enron or Global Crossing or AOL Time Warner?") he thinks that young Americans ultimately perceive it as far more risky to place all their retirement eggs in the Social Security basket.

The sticky part of mobilizing Xers as a force for personal accounts, the youth experts agree, is that Xers don't care much about politics. "They avoid it like toxic waste," states Thau. Moreover, "the political leaders in this country are so focused on likely voters that they do nothing to court unlikely voters, who happen to be disproportionately young," he adds.

Eventually, though, the privatization bomb is almost certain to go off. People tend to vote more as they get older. Meanwhile, Social Security's finances will get very ugly, and the size of the problem will make it front-page news. Gen X is likely to mature into a solid, politically significant force for reform.

Of course, if we wait around long enough, even Osama bin Laden will die of old age. Advocates of personal accounts mustn't stand around waiting for the Gen X boat to float gently down the stream. What's needed is marketing, agitation, leadership. What if reformers came up with a spokesman? Someone hip…someone young Americans can relate to…someone who speaks to them, and looks like them.

"Dude—you're getting a private retirement account."

*R. H. Sager is a news assistant at the* New York Sun.



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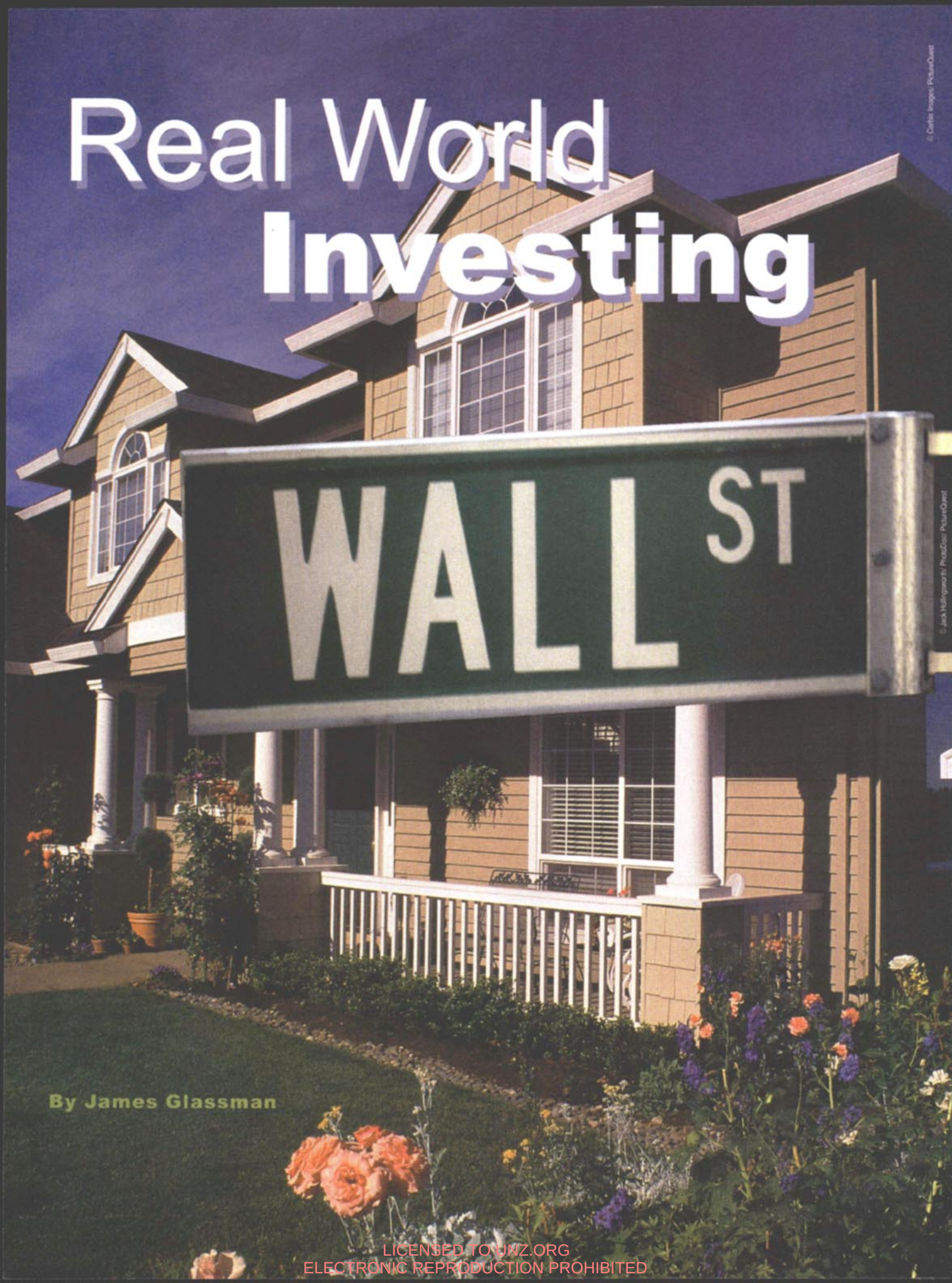
# Real World Investing




By James Glassman

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The best qualities for investors are the ones Aristotle admired: moderation, common sense, restraint, modesty, and integrity. It's rare to find a successful wealth accumulator who isn't a solid citizen in the classical sense. Contrary to popular opinion, sharp dealing and a gambler's lust for the main chance are not the soul of good investing.

**Live modestly.**
**Invest sensibly.**
**Don't touch the money.**
**Over time, you will grow rich.**

After all, saving begins with delayed gratification. Having earned $10, you really have only two choices: You can use it for consumption—getting pleasure or comfort right now from a movie ticket or plate of sushi or plaid shirt—or you can invest it. When you invest, you turn your money over to be transformed into a factory or a ton of steel or the windows of a new school. There is no immediate benefit for you.

Investing also rewards faith and trust. Since you are handing over your money to someone else, you can't be completely sure what will happen to it. For that reason, investing is closely linked to the rule of law and a culture based on honesty and accountability.

The hope is that if you put your money away, you will have a good deal more of it in the future, so that, having postponed your purchase, you will be able to buy two movie tickets, a plate of sushi plus shrimp tempura, and a classier shirt. The longer you hold your investments, the more valuable they become. Patience pays—literally.

Investors come in two varieties. Outsmarters think the way to make money in the market is to beat the system, buying on tips, selling (somehow) just before the market falls. They don't much care about which companies they choose, only which stocks.

Partakers, on the other hand, try to find good businesses and become partners, sharing in corporate fortunes over the long haul. The reason most outsmarters don't win at finance is that it's not a game you can beat. Yes, a very small number of exceptional traders may get returns a few percentage points better than the market as a whole. You might be born this way, or you might decide to devote your life to becoming a professional stock picker as others become golfers or neurosurgeons. But why? As a partaker, you get nearly all the benefits with little of the risk.

You should also resign yourself to the fact that you cannot predict what stocks will do in the short term. Admitting ignorance is the beginning of wisdom. Burton Malkiel, a Princeton University economist, famously showed that stocks move in a "random walk"—a pattern "in which future steps or directions cannot be predicted on the basis of past actions."

At any moment, all public information is reflected in a company's stock price. All possible knowledge about the firm has been "discounted" or priced into the stock. (Company insiders may have special information, but they are prohibited by law from acting on it.) It is new public information that changes a stock's price, and what's new is, by definition, not knowable in advance. Analysts may have a good idea that a pharmaceutical company will get federal approval for a blockbuster drug. The event has not happened yet, but it is anticipated and built into the price. If the drug is rejected by the feds, then the price will probably fall.

It should be a relief to learn that one of the most important laws of investing is that nobody can outsmart the market. But accepting that knowledge requires a kind of equanimity that many people lack. Virtues like moderation, restraint, and accepting one's limitations aren't in big supply.

As an investor you must know what you want and when you want it. There are three kinds of investment assets you can choose, and the selection depends on your time horizon. Stocks are for the long run (you should hold them for five years or more). Bonds are for the medium term (one to five years). Cash is for the short term.

The market generally rewards partnership more than it rewards lending. Lending is treated as safer and surer, in part because lenders stand in front of shareholders in a bankruptcy. Therefore lending returns less than equity investments.

For most of your life, your retirement fund should be invested in stocks. But if you have saved $50,000 for the down payment on a house you expect to buy within two years, then that money should be kept in bonds. And your emergency funds, which you could need any second, should be kept in cash (a technical term covering bank accounts, certificates of deposit, Treasury bills, or a money market fund—anything that retains its value from day to day and is easily accessible).

The single most important factor in investing is time—more important than the specific stocks or bonds you pick, or your cleverness in buying or selling at just the right moment. The reason time is so powerful can be summed up in a single phrase: the miracle of compounding, which Albert Einstein called the most powerful force in the universe. Each year, you earn a small return on your original investment—your principal. But as time goes by, you earn interest on that interest. This aspect is so significant that I need to spell it out with a little math.

Say you put $100 in a savings account that earns 6 percent interest, paid annually, and that you leave the interest to build up over the years. By the end of the first year, your $100 earns $6 in interest for a total of $106. But in the second year, the 6 percent interest applies not merely to the original $100 but to the extra $6 in interest as well. Thus: $106 x 1.06 = $112.36. After ten years, the investment grows in this manner to $189.83 ($100 x 1.06 to the

TAE *contributing writer James Glassman, a fellow at the American Enterprise Institute and investing columnist for the* Washington Post, *is author of* The Secret Code of the Superior Investor, *from which this article is adapted.*


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tenth power). That's the power of compounding in action, which, over long periods, is miraculous.

Since 1926, the broad U.S. stock market, as represented by the Standard & Poor's 500 Stock Index (roughly the 500 largest American companies listed on the three major stock exchanges) has returned an average of 11 percent a year. Assume that you begin with $10,000 today and invest it in a broad portfolio of stocks (like the S&P index itself) that returns an average of 11 percent a year. There is of course no guarantee that you will gain 11 percent each year, but that's the historical average—a pretty good forecaster.

**Crazy things happen in a day or a year. But the market's bumpiness is smoothed out over time. The longer you hold stocks, the less risky they become.**

At that rate, after six and a half years, your $10,000 will grow to about $20,000; after 13 years, to $40,000; after about 26 years, to $160,000; after 52 years, to well over $2 million. Thanks to compounding, the value of your portfolio will double roughly every six and a half years.

Here is another way to think about the miracle of compounding over time. During the first six and a half years you own your portfolio, it grows by $10,000. But during the fourth six-and-a-half-year period, it grows by $80,000. Holding onto an investment for 26 or 52 years is not so farfetched as it sounds. If you begin at age 30, you can build a $10,000 stake into over $1 million by the time you are about 70. Even after you adjust for inflation, that is a mighty gain.

These things happen all the time in the American economy. Some patient investors produce even more dramatic results. Anne Scheiber was a modest government clerk who never made more than $4,000 in one year. But she lived simply and saved money. In 1944, she put a total of $5,000 into stocks such as Coca-Cola and Merck. When she died in 1995, she left her estate to Yeshiva University. It was worth $22 million.

Donald Othmer was a professor of chemical engineering in Brooklyn. His wife Mildred was a teacher and a buyer for her mother's dress store. He died in 1995, she followed in 1998, both of them in their 90s. They lived quiet, unpretentious lives, so it came as a shock to their friends to learn that their combined estates were worth $800 million. (They gave nearly everything to charity.) How did they become so rich? Like many other Americans, they simply put money ($25,000 in the early 1960s) into sound stock market investments (Warren Buffett's Berkshire Hathaway), and left it there for a long time.

The lesson is simple: Live modestly. Invest sensibly. Don't touch the money. Over time, you will grow rich.

The power of time is the reason that investors should start early. How early? Think birth. If parents are prescient enough, they can set up a sort of Social Security plan of their own for their child. Simply put $5,000 into an investment that we'll assume will return an annual average of 10 percent (probably a mix of stocks and a few bonds). By the time the child is 65, the $5,000 will have become $3 million. That should be enough to purchase an annuity (an investment contract with an insurance company) that provides an income of $200,000 to the retiree (which, after accounting for likely inflation, should be about double what today's retirees get from Social Security).

But don't count on parents. Say that your goal is to retire at age 60 with $1 million. Start by age 29 and put away $5,000 per year (again at 10 percent) and you'll reach your goal. But if you wait until you are 39 to begin investing the same way, you'll accumulate only $300,000.

Here is an even more dramatic example of the power of starting early: One investor decides to begin saving at age 25. She puts $2,000 a year into a portfolio of stocks and bonds that returns an average of 10 percent a year. At age 35, after investing a total of $20,000, she stops and never adds another penny to her account. But the value of her fund continues to grow, and by the time she is 65, she has $546,197.

A second investor waits until he is 35 before starting. He, too, socks away $2,000 per year in a mutual fund returning 10 percent a year. But he invests for a full 30 years—a total of $60,000. How much does he have age 65? Just $328,988.

Time not only gives you the opportunity to exploit the miracle of compounding. It also moderates risk. When you hold a stock long enough, it actually becomes less risky than a bond.

What is risk anyway? If an investment could guarantee a specified increase in your purchasing power, then there would be no risk. Investing would be a lark. By definition, risk is the possibility of harm or loss, and when you delay gratification and give your money to someone else to use, there is always the chance that you will lose all or part of it. Even bonds issued by the United States Treasury carry risk—not so much that you won't get your principal back, as can happen with stocks, but that this money, eroded by inflation, won't be able to purchase much.

In financial jargon, risk is usually defined as volatility—the ups and downs of an investment's return. While the returns of bonds and cash don't bounce around a great deal, the returns of stocks do. This kind of riskiness may not sound so terrible. If you plan to hold on to your shares for, say, five years, what's the difference whether they rise every year at 10 percent or whether in some years they rise 60 percent and in others they fall 30 percent? For a superhuman, there is no difference at all, but for most people, the difference is huge.

Volatility affects behavior, and prudent behavior is the key to investing success. It is hard to live up to Aristotle's ideal of



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moderation when your Cisco stock drops by half in a month. The response of most folks is cold fear, leading to an impulse to sell—often at exactly the wrong time.

In theory, volatility can be the investor's best friend, since it offers good stocks at bargain prices. The rational response to a decline in the value of your favorite stock may be to buy more. But in practice, volatility is usually the investor's worst enemy, since it induces him to act irrationally. Stock-market risk is what makes investing difficult.

The good news is that stocks are risky in a particular way. Taken individually, they are wildly volatile over a short term, and moderately volatile over a longer term. But taken together—in an index like the S&P 500 or the Dow Jones Industrial Average of 30 major stocks—they are very volatile in the short term but *no more volatile than bonds in the longer term.*

Here's one extreme example: On Monday, October 27, 1997, the Dow fell a sickening 554 points—at the time, the biggest one-day decline ever. But on Tuesday, the Dow rose an impressive 337 points. The net effect was tiny—a decline of less than 3 percent, which is the equivalent of a stock falling from $30 to $29. For the first ten months of that year the Dow had risen robustly, and it was still well ahead even after the horror of that Monday. So if, as a contemporary Rip Van Winkle, you had fallen asleep on January 1, 1997 and not awakened until Halloween, you would have a big smile after checking your stocks in the paper: "Fine. The market is up 16 percent," you'd say. And then you could go back to peaceful sleep.

In a microcosm, the experience of 1997 describes the stock market very well: Crazy things happen in an hour or a day or a week, or a year or even a few years. But, history shows, the market's bumpiness is smoothed out over time. The longer you hold stocks, the less risky they become.

This idea is so counter-intuitive that it needs more explanation. In 1995, Jeremy Siegel, a professor at the Wharton School of the University of Pennsylvania, wrote a book called *Stocks for the Long Run* that pulled together data on stocks and bonds, their returns and their risk, going all the way back to 1802. He uncovered some amazing facts: The best year for the stock market produced an after-inflation gain of 67 percent (an investment of $100 became $167). But the worst year produced a loss of 39 percent ($100 became $61). The range of results, from top to bottom, was more than 100 percent of the original stake. That's volatility. But, at the same time, Siegel's research showed that riskiness declines significantly over periods longer than a few years.

His conclusion was that over any reasonably long interval "the safest long-term investment has clearly been stocks and not bonds." He found that there has never been a period in U.S. history of 17 years or longer in which a diversified portfolio of stocks (the S&P 500 or its predecessors) did not produce a positive return after inflation. Bonds were another story. Looking at every overlapping 20-year period since 1802 (1802-1821, then 1803-1822, then 1804-1823, right up to the present), Siegel discovered that the worst period for stocks produced a total return, after inflation, of more than 20 percent. The worst 20-year period for bonds, after inflation? *Minus* 60 percent!

The most common way to measure risk is through standard deviation—a figure that tells how much returns vary, from year to year, as compared to the average. If a portfolio of stocks pro-

## A Dollar Saved is a Dollar Earned

*From a Jonathan Clements* Wall Street Journal *column in January 1999:*

A month ago, I invited readers to tell me about their smartest financial moves. What you like to boast about is not picking great investments, but saving a few bucks. The comments below were culled from more than 400 e-mail messages.

$ When I was 23, I had a substantial portion of my paycheck directly deposited into a bank that was 25 miles from home. It was so inconvenient to get there I almost never touched the money. I turned down an ATM card, making it even harder to access the cash. Though I didn't make a lot of money, my savings built up quickly and, within five years, I was able to buy a house with 20 percent down. —Ellen Galambos, Duxbury, Massachusetts

$ In 1967, while on vacation from college, I spent part of the summer loading boxcars with 100-pound sacks of flour. I made $1,600. Following my father's advice, I bought 37 shares of AT&T. Today, after the break up of AT&T, various spinoffs, and the reinvestment of dividends, the portfolio is worth in excess of $142,000.
—William Strutz, Shawnee, Kansas

$ My wife and I take the change out of our pockets at the end of the day and put it into our daughter's piggy bank. At the end of the month, we have $50 or more, and we stick it into a mutual fund that will pay for her college education.
—Mark Gardella, St. Louis, Missouri

$ I always cringe whenever we go out to eat and the three kids order soft drinks. We all know the margins on those. Therefore, I made a deal: The kids have the option of either ordering a soft drink or ordering water and receiving a dollar from me. The results have been great, especially on vacations when all meals are eaten out. The benefits are threefold: The money stays in the family, the kids learn to forego present gratification, and water is healthier for them. —Mike Giangardella, Warren, Ohio

$ After I finished paying off my car loan I made a vow to myself that I would never make car payments again. So after the loan was satisfied in 1990, I started investing that same $500 per month. Today, it is worth over $100,000. —Bill Wilson, Dallas, Texas


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duced returns of 11 percent *every single year*, for instance, its standard deviation would be zero. The portfolio would not be risky at all.

In reality, the S&P 500 has returned an average of 11 percent annually, but has a standard deviation of about 20 percent per calendar year. That means, according to the rules of standard deviation, that in two thirds of all years the index produces returns falling in a range somewhere between 20 percentage points higher and 20 percentage points lower than the average—in other words, from +31 percent to -9 percent. Now, that's volatile!

But Siegel found that when investors held stock portfolios for ten years without selling them, volatility plummeted to a standard deviation of just 5 percent (meaning that returns in two thirds of the years fall into a range of 6 percent and 16 percent). And for investors who held stocks for 30 years, volatility dwindled to nothingness—a standard deviation of about 2 percent, which is lower than the risk of U.S. Treasury bonds (after accounting for inflation in both cases).

The miracle of American economic history is clear: Hold U.S. stocks long enough, and they are not very risky. Their average returns, meanwhile, are potent. As a result, any disciplined saver and patient, diversified investor is almost sure to grow rich. All that's needed is a little wisdom and willpower.

What a country.

## Caution: CNBC May Be Hazardous to Your Financial Health

*By Phil DeMuth*

CNBC pioneered investment TV for the masses. All day long the network brings on guests to opine on various companies and market conditions: CEOs of Fortune 500 corporations; fund managers who oversee enormous assets; securities analysts surrounded by offices that hum like Las Vegas casinos. It has the look and feel of serious journalism, including friendly anchor-like personalities who have insinuated themselves into our extended families. Yet, these are the same folks who confidently cheered us on as we bought the NASDAQ at 5,000. Is it possible that it's all just hucksterism? To find out, I followed CNBC through the course of a trading day, from opening bell to closing gavel.

On this day, as on any market day, there are as many people selling stocks as buying. Strangely, CNBC's experts are uniformly bullish. No one says to sell stocks. No one recommends bonds, real estate, commodities, or just keeping money in the bank.

CEOs coming on to promote their companies can rely on CNBC's news personalities to tee up their talking points. Pfizer CEO Hank McKinnell delivers a panegyric about his stock, without being asked how the new competition for Pfizer's alpha drug Viagra will improve the company's earnings. Staples' Tom Stemberg is given free airtime to expand on all the new ways the office supply store is serving its business customers. He appropriately concludes his interview, "Thanks for all your help, guys."

**CNBC is really a giant, non-stop infomercial for trading stocks.**

Wall Street research analysts are supposed to protect the stockholder by taking a critical look at companies. Instead, as everyone but CNBC seems to know, "Buy" recommendations from analysts outnumber their "Sell" calls by an estimated hundred-to-one margin. While CNBC packages analyst blurbs as news, they're really just more ads.

Bashing analysts has become rampant since it has been discovered that they routinely tout stocks favored by the investment-banking side of their houses (dumping them on credulous customers, to the benefit of the investing side). Unfortunately, CNBC's disclosure of such conflicts of interest is virtually nonexistent. One analyst volunteers that he does not own the stocks he follows—a practice some reformers urge upon the industry as a whole. This gets it exactly wrong. It would be far more salutory if analysts were forced to hold the exact securities they recommend so heartily to others.

Curiously, there is nothing presented in the way of track records for any of the analysts interviewed this day. CNBC, which has more charts than a Park Avenue cardiologist, is apparently unable to produce even one that traces stock prices and shows where the analyst *du jour* made his Delphic buy, sell, and hold calls. Even better would be a graph showing how investors who put their money behind the analyst's last slate of recommendations would have fared. Without this sort of background check, neither CNBC nor its viewers has any idea who is plopped before the cameras and presented as an expert.

On the day I analyze, one of the major themes is that stocks are down, and therefore cheap. The fact that stocks are still selling at all-time highs compared to their earnings, dividends, and book values goes unmentioned, nor are their yields compared with those found more safely in the bond market.

Novellus Systems CEO Richard Hill assures the audience that a stock beaten down like his has nowhere to go but up. If these people can see a year into the future with such aplomb, one wonders how their companies got into such bad shape in the first place. But no: The moon is in the second house, Jupiter aligns with Mars—it's the dawning of a new age. Trust us, say the TV seers.

Money manager Jim Schmidt runs John Hancock's Financial Industries Fund. I later discover that his fund is down 18 percent for 2001. Is Schmidt contrite, sheepishly advising investors to redeem their shares since their money would be safer in a mattress? Not a bit. Instead, he offers three stock tips, with more available on the CNBC Web site.

The stock tip is the building block of CNBC's news day. Erik Gustafson of Liberty Growth Stock Fund presents his tips with a straight face even though his fund is down 30 percent over the



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previous year according to Morningstar. The stock tips are cast into an intellectual vacuum. All opinions have equal value. Analyst Cai von Rumohr of SG Cowen tells us he thinks it's time to buy defense stocks, arguing that we are at war and that there will be a need for more defense spending. No one suggests to viewers that von Rumohr's tip is a banality that was priced into the market back in September. Another says it's time to buy Kellogg, noting, "In good times and bad, people have to eat food." The market presumably priced this insight into Kellogg around 1922.

If CNBC is going to pepper viewers with breathless stock tips, it should balance these with an equal number of advisories to sell. And why not keep track of all the stock tips, if they give viewers such an edge? A single graph could neatly summarize the performance of all CNBC stock tips over the past few years—truly a picture worth a thousand hours of TV viewing.

The motivation for CNBC's Wall Street jingoism isn't difficult to unearth. Follow the money. CNBC's ratings correlate directly with the performance of the stock market. The active trader has the most reason of all to stay glued to the TV. All of which must surely please CNBC's advertisers, who sell investments and stock trading, as well as ancillary services like computers, high speed Internet connections, computer memory, and (helpfully) loan consolidation—not to mention the ever-present pitches for the putative sexual potency restorer "Enerx" and the passive abdomen-toning "Flexmaster." The psychographic viewer profile these ads evoke is not flattering. It suggests a man who's impotent, in debt, out of shape, running out of memory, who wishes he had a great deal of money—fast.

Although it has a format and furniture like a news station, CNBC is really a giant non-stop infomercial where the subtext—buy stocks—is insidiously mixed with business news. Meanwhile, investors who were swept up by this sea of hype have lost trillions of dollars. It's enough to make you wonder whether these loveable electronic news personalities are really your friends after all.

*Phil DeMuth is a Los Angeles writer. A sister article to this piece appeared in* Barrons *on March 18.*

## Lessons from a Market Guru

*By Ken Von Kohorn*

When I opened an investment advisory practice in 1976, stocks had been through some very tough years. At cocktail parties, people talked about home prices, not share prices. Stocks were so out of favor that in 1979 *Business Week* ran a cover story that proclaimed "The Death of Equities."

Without a rising tide to lift all boats, there were two ways to prosper: You could attempt to beat the averages by picking the best stocks, or you could try to move in and out of the market at just the right time.

Market forecasting seemed like the better alternative. There were models with good track records available for a reasonable fee. In a seesaw market, having their market predictions at hand would probably help.

I did some research and came across an investment newsletter writer named Joseph E. Granville. He had been making an uncanny series of market calls. Using a technical formula of his own devising, he seemed to be able to predict significant market moves. Granville might have what I was looking for.

I was far from alone. Each time Granville made another accurate forecast, his *Market Letter* added thousands of new subscribers. At its peak, the *Letter* was read by tens of thousands at over $200 per year—bringing in well over $10 million annually to its author.

As his reputation grew, Granville's market calls actually began to affect share prices. Traders reacted to his pronouncements as if they were legitimate news events. Sensing a new market niche, Granville offered an "early warning" service (in the form of a telephone call) for an added fee. That would enable you to get the word of a signal change before more plebian subscribers who had to await regular mail delivery. (This was, of course, well before e-mail.) Hoping to get a jump on my competition, I upgraded.

By 1980, Granville had developed rock-star status in stock market circles. He toured the country with a series of "shows" in which he mocked the Wall Street establishment while touting his own superiority. I observed him once at the Stamford, Connecticut Marriott. As I left, I noticed that one elderly Granville fan had apparently had too much excitement: He was being carried out on a stretcher.

One night in January 1981 I was sleeping soundly. My clients and I were fully invested in stocks, and had been enjoying solid gains since the market bottom of April 1980. Just after midnight, the phone rang. Barely conscious, I picked up the receiver and heard a voice say: "This is the Granville Early Warning Service. Sell everything. Goodbye."

I was now wide awake. Why had they called at such an annoying hour? (I later found out that they started making thousands of telephone calls, one by one, beginning at the market's close.) I knew that, with Granville's reputation, the "Sell Everything" signal would be all over the business news before the next day's opening. There would be no way for me or anyone else to take action before the likely avalanche of selling had driven prices lower. Indeed, the next day stocks opened down about 3 percent—equivalent to a 300-point sell-off in today's market.

I was paying an annual subscription fee of hundreds of dollars to be awakened at midnight and told in, effect, "Tomorrow

I was sleeping soundly.
Just after midnight the phone rang.
I heard a voice:
"Sell everything. Goodbye."



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you and your clients are going to lose a lot of money." This was the beginning of my more humble approach to investing.

In the spring of 1980, Granville had boasted: "I don't think I will ever make a serious mistake on the stock market for the rest of my life," and many of his followers believed him. When he visited the New York Stock Exchange a year later, he gave a big "thumbs down," and the market continued weak for another year. In July 1982 the Dow dropped below 800. Granville and his followers were even more certain he could do no wrong.

As it turned out, the beginning of a massive bull market was at hand. Yet as stocks moved higher, Granville remained stubbornly bearish. He missed that call—and many, many more thereafter. According to the *Hulbert Financial Digest*, a tracker of investment newsletters, for a ten-year period stretching from 1987 to 1997—a time when making money in the stock market was about as hard as falling off a slippery log—the *Granville Letter* suffered losses averaging 19 percent per year.

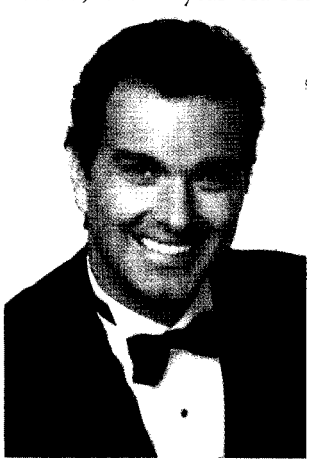
This pattern of a meteoric rise and fall by some market guru has been repeated many times since, most recently by celebrity stock-pickers like Mary Meeker, Henry Blodgett, or the Internet's Motley Fool service. Smart investors have learned they must remain humble, ignore gurus, and avoid getting swept up in a trendy consensus.

*Ken Von Kohorn is a Yale and Stanford graduate who runs his own investment advisory firm in Connecticut.*

## From Wall Street to Broadway

*By Karina Rollins*

As an undergraduate in college, Michael Maguire earned money as a strolling troubadour at Colonial Williamsburg. In graduate school, he also played the guitar in restaurants. "I started making more money than I needed," the 42-year-old Maguire says from his cell phone in Los Angeles, "so I started buying stocks." Using only his own research—"I never took a business class"—Maguire didn't buy any stock over $20. "The one thing I knew," he says, was to "buy low, sell high."



Michael Maguire

In 1981, with dreams of a career in musical theater, he moved to New York City. With a good voice but no stage experience, he realized he needed acting classes. But "I'd seen too many actors lead hard-scrabble lives, working as waiters." So he came up with a plan: "Make enough money to have the luxury of being able to pick and choose roles." Having "always been good with numbers," he headed for Wall Street.

Investing gave him the chance to pursue the life he yearned for.

"I started off as the coffee boy, basically," at Lasser Marshall, says Maguire, at a salary of $12,000 a year. He worked in currency exchange—which is "extremely confusing for a first-time person"—but the kid from Virginia who was "good at figuring out stuff without a calculator," caught on fast. Within half a year he became "one of the top two or three people out of 30 on the desk, in terms of commission."

After about ten months, he was offered "a big job" as a head currency trader with a London bank. Maguire describes this as a "cathartic point" in his life. "It really made me think: What do I want?" He turned down the offer. "A part of me wishes I could have been two people and done both. Of course, I probably would have had a heart attack."

Sticking with his original goal of using his finance skills to become a performing artist, he continued to work long days on Wall Street with a different firm and took acting classes at night. "I redoubled my efforts. I wanted to follow my voice." He spent two and a half more years as a broker. His salary jumped to six figures. But he never took his eye off his personal prize.

Maguire saved up enough money to get by for two years without having to work at all. In 1985 he went auditioning, and landed the star role in *Tecumseh* in Ohio, living, at first, in a tent with three other guys. On Sundays, he was the lead understudy in *Shenandoah*. In 1986, Maguire had "only done three shows" when he auditioned for his Broadway debut in *Les Miserables*. When asked what qualifications he had, he answered: "I spent the past three and a half years acting like I knew what I was doing" on Wall Street, "that's the best acting you'll ever see."

Maguire stepped onto the Great White Way as student revolutionary Enjolras, winning Drama Desk and Theatre World awards as well as a Tony for the role. Maguire has since toured with *Les Miz*, appeared with the New York City Opera, and acted on television, including a pointy-eared stint on "Star Trek: Voyager." And all this as a registered Republican.

Would he ever return to Wall Street? "I miss the excitement," he says, and he continues to follow the stock market, and remains an active investor. He stayed in touch with his Wall Street friends, several of whom died on September 11. Making money in "swaps, straddles, market spreads" is fun, he says, "like a puzzle." But more important, the world of investing gave him the chance to pursue the life he yearned for.

"Most people don't really have an understanding of the market. So they fear it." Michael Maguire embraced it.

*Karina Rollins is a* TAE *senior editor.*



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# Have GSEs outlived their usefulness in today's fast-moving financial markets?

## GOVERNMENT-SPONSORED ENTERPRISES

Mercantilist Companies in the Modern World

THOMAS H. STANTON

Whatever the value of government-sponsored entitities in the past, is the public benefiting from them today?

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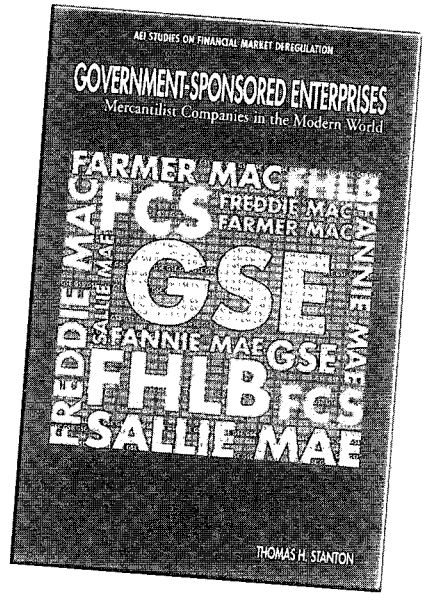


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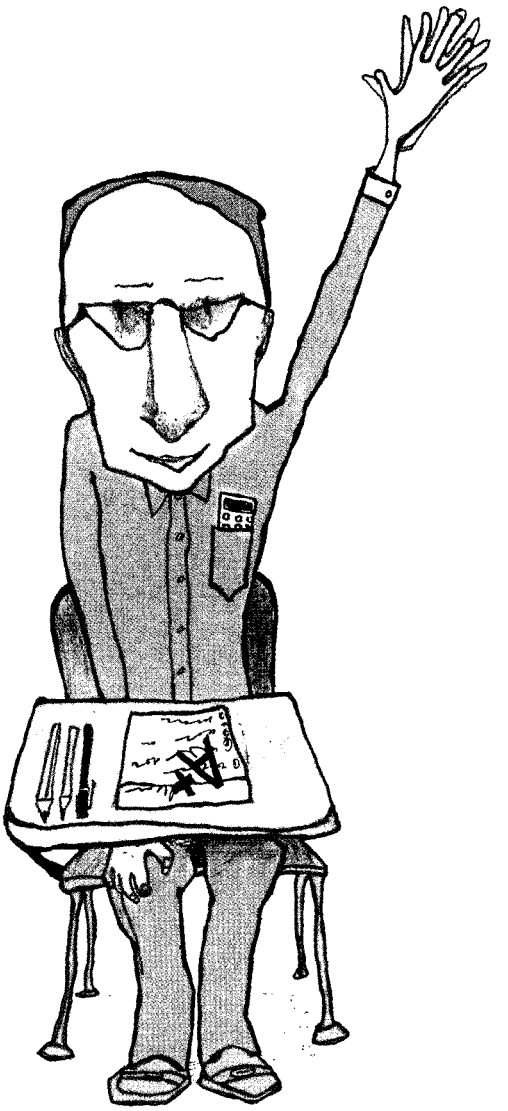
# Nerds on Wall Street

**By Eli Lehrer and Karl Zinsmeister**



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Success in America's thriving, often cutthroat, finance industry has always required finding individuals and building organizations with a wide range of skills. Persuasive sales people, statistical gurus, and instinctual risk takers have all had a place in the business. But much more than a generation ago, Wall Street is now peopled by apparently unrelated, even seemingly conflicting, groups. Aggressive, brash, flashy men (they are almost all male) who treat the thrills and chills of high-stakes investing as a kind of competitive sport continue to be very prominent. But many office cubicles are now filled with a different, newer type of personality—the fastidious, idea-filled wonk whose passions in life are mostly quantitative and analytical, particularly involving mathematical manipulations.

This is linked to the gradual movement of modern markets toward greater and greater rationality. Over time, markets established to trade commodities, equities, bonds, and financial derivatives tend to become more efficient at setting correct prices. As a result, it becomes harder to uncover fresh information that allows a person to beat the market in the long run. Indeed, in well-developed markets it is nearly impossible to make money, over the long run, from simple speculation.

Yet so long as humans run them, markets will never be perfectly efficient. Somebody will always discover some small advantage. Increasingly, traders do this by reducing risks (via what they call "hedging"), and mining unexploited buying and selling opportunities exposed by complex mathematical formulas. The problem is that over time, these advantages tend to dissipate. Innovative methods leak into general circulation, or eventually fail in the face of altered behavior among wised-up competitors.

The result is that the margins of success tend to get thinner and thinner. Most successful financiers today operate on razor-thin profits; they make their millions by uncovering tiny pockets of irrational pricing and then buying and selling in massive volumes to leverage these small profits into substantial sums. This kind of behavior, practiced in many sectors, makes an economy more and more precise and productive. It can also make the unearthers of small economic inefficiencies very rich—putting a premium on the esoteric math and computer skills that requires.

Although they have always existed, math geniuses working to rationalize markets have become much more prevalent in recent years. "The nerds are on the rise," says Frank Partnoy, a former derivatives trader who has written a book about the culture of the derivatives industry. "You have the people who were the quarterbacks in high school working side-by-side with the guys

*Eli Lehrer is a* TAE *senior editor. Karl Zinsmeister is the magazine's editor in chief.*



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who played chess and wrote computer programs. The whole feeling of the industry is different."

The new wonks have transformed Wall Street's culture, blurred the lines between academia and finance, and transformed the range of products available to investors. They have also helped create within our finance industry a unique cultural synthesis of the active and practical with the contemplative and theoretical. While across the rest of modern society there is a yawning chasm between the worlds of math and science and the world of social interaction, on Wall Street these two cultures are increasingly fusing.

**On Wall Street, the worlds of math and science are fusing with the worlds of sales and competition.**

Through most of U.S. history, a good soldier in the investment industry needed strong social skills to attract clients, and steely competitive abilities to see him through jousts with economic opponents. Many traders, bankers, and brokers acquired such skills through the hypercompetitive world of sports. A 1985 survey showed that a full quarter of the male employees at large investment firms had participated in interscholastic athletics on the college level.

A social bifurcation often split the finance labor force. Some "white shoe" firms oriented toward wealthy clients sought out employees from Ivy League colleges and the "right" social background. Other companies tended to hire hungry, ambitious strivers from working class origins. "Even today, the typical person you see managing a fund is often the first in his family to go to college. He's worried about status maybe a little more than he should be," says Larry Hite, an enormously successful investment manager of the 1980s.

Arbitrary factors have become less and less relevant to Wall Street hiring as the business has become bigger, more competitive, and more complex. Wall Street can't afford to close itself to new talent, because of the relentless discipline financial markets impose on their participants. If you don't make money, you will not continue to participate in the game. So hires are now made mostly on the basis of raw merit. For the salaries they offer, banks and brokerages can often have their pick of America's best students (as well as stars from abroad—Chinese, Indian, Israeli, Eastern European, and other imports have become quite prominent).

The growing presence of quantitative nerds on Wall Street began to be noticed around the late 1970s and early 1980s. Peter Bernstein, author of the investing analysis *Capital Ideas*, traces the shift to the bear market of 1973-1974. After years of steady increases, the stock market entered a tailspin during a severe recession. Brokers had grown lazy and were making money largely by recommending "nifty fifty" stocks of fast-growing companies. When the Nifty Fifty tanked, dozens of marginal players went under. At the same time, the arrival of the first practical business computers, an excess supply of scientists thanks to the end of the Vietnam War, and new mathematical insights from academia, brought a bevy of new technology and manipulative techniques to Wall Street.

A larger percentage of the new work force was defined by skills in math, statistics, and computer programming. Advanced degrees other than MBAs were beginning to be seen in large numbers for the first time. Many specialists in previously exotic fields like physics and economic forecasting began to show up. Sometimes all it took to become a hot commodity on Wall Street was one academic thesis on the right subject. "You're seeing the emergence of types of people who, by virtue of some big idea that they present, are getting real recognition. Now they're everywhere," says Charlie Smith, a Queens College sociologist who has written extensively about the cultures of Wall Street.

"That's the secret of Bloomberg's success—it's a number-crunching operation full of physics majors and other quantitative types," business researcher Stephen Malanga tells *TAE*, referring to the stellar financial-information service that New York City's current mayor ran before he entered politics. Economist Larry Kudlow notes that "Wall Street has *always* had a deep, intensive interest in number-crunching. So it's not brand new. What *is* new is that the technology revolution has made it easy, cheap, and quick to carry out. So quantitative virtuosity is now essential to keeping up."

In addition to numbers and computers, many of the new finance wonks seem to have an interest in music. Nearly all of the investment professionals *TAE* interviewed play an instrument, and almost half have made a recording. Music seems to fit well with investing because it draws on mathematical reasoning, and because performing musicians have learned how to work under pressure and relate to audiences.

"The typical gunslinger of the 1960s or '70s has been pushed aside," summarizes Bernstein. "Everyone has to use some quantitative techniques, no matter what he does." At first, the new quantitative players were a mere trickle, but as financial trading traffic has soared in recent years they have poured in as a flood. "There's a certain isolation of the wonks from the old guard. You can often see two groups of people at a company picnic or Christmas party," says Partnoy. "But it's not that it's two separate worlds."

The line between pointy-headed academic work and real-world high finance has also become increasingly blurry. One early and relatively simple example is index funds (which assemble stocks from all the companies in a given category, thereby investing not in particular firms but in the overall prosperity of America). Today's single most popular way for individuals in the U.S. to hold stocks, index funds owe their existence to computers and academic research.

As stock market historian B. Mark Smith explains, "self-



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described computer nerd" William Sharpe realized that if one diversified a portfolio widely enough, the intrinsic risks of stocks cancel each other out, leaving only the volatility of the national economy itself as a risk factor. Sharpe published his work (extensions of which eventually won him a Nobel Prize in economics) in 1964. Within the decade, index funds were commercially available to consumers, and within two decades they were one of the country's favorite investments. Today, the Vanguard Group's S&P 500 index fund holds more assets than any other mutual fund.

Fresh ideas and new bodies and brains now flow easily between academe and investment companies.

Ideas now flow almost seamlessly between university campuses and trading floors, and academic innovations regularly turn into commercial blockbusters. "You've reached a point where the difference between what my students and I do here and what they want done at Morgan Stanley or wherever is close to nil," says Steven Shreve, who heads Carnegie Mellon University's doctoral program in mathematical finance. "There's a problem we run into frequently with some bit of research which we want to publish and some firm somewhere would rather have as a trade secret."

Not only ideas, but bodies and brains more than ever flow between academe and investment companies. "Even in the early 1990s, I could probably name all of the professors who were working on Wall Street," says Bernstein. "Today I can't. There are too many." At Carnegie Mellon, Princeton, Cornell, MIT, and other universities, students even in non-financial disciplines like engineering are increasingly finding their way into finance firms. In 2001, about 5 percent of engineering doctorates were awarded to people doing work in economics.

The blurring goes both ways: Some of the new finance players begin to look and act like academic institutions. Algorithmics, a Toronto-based financial risk-management strategy and software firm, publishes its own research journal, and as many as a dozen peer-reviewed mathematical papers each year. "It's a lot like being in a university," says Algorithmics vice president Dan Rosen, a former University of Toronto mathematics researcher. "Except that here we're applying the research we do, and we're doing it right away." New York City-based D. E. Shaw (from which sprang Jeff Bezos and his plan for creating Amazon.com) is described by one employee as "the most luxurious college dorm in all of human history. We are developing these incredibly complex mathematical models. A lot of it is just bull sessions, but the difference is that nearly everyone knows what they are talking about."

In addition to changing Wall Street's culture, the new influx of finance wonks has changed the nature of the products sold there. Since nearly all markets become less lucrative as they mature, the biggest profits tend to result from creating a new way of putting money to work. Some markets actually become so efficient that they vanish as profit centers: Chicken egg futures, for example, were a subject of active commodity trading into the mid 1970s, but no longer exist because everyone involved in buying has the same information, and prices don't fluctuate much any more. On the other hand, brand new markets pop up all the time now.

New markets can be born on the basis of a single insight. Drexel Burnham Lambert literally invented a new trading market for high-yield bonds in 1977. Previously, any company that missed a payment on a bond would find it almost impossible to sell securities again. And if a smaller company wanted to issue bonds to take over a larger one, buyers could not be found. Then Michael Milken convinced his firm to begin trading higher-risk, high-yield bonds, creating a major industry in the process.

While the high-yield bonds Milken pioneered stemmed from a reasonably simple intellectual insight, other innovative new investments grow out of abstruse technology or complex mathematics. "There is a new emphasis on creativity," says David Harris, a partner in Drexel Burnham's Houston office during the firm's heyday. "You act as a combination of evangelist and educator. You have to think for yourself every minute."

It would be easy to overstate the influence of nerdy academics on Wall Street. With the major exception of the wholly computerized NASDAQ market, nearly all of the important exchanges for stocks, bonds, and commodities still operate trading floors where humans make the final investment decisions. Managers at any fund must often override their technical models. "You can have quantitative work up the wazoo to inform people in every way," says Mitch Abolafia, a professor at the State University of New York-Albany who has studied the culture of trading floors. "But, in the end, it's still humans making the final decisions."

Humans continue to outdo computers in many aspects of the business. In the early 1990s, nearly everyone believed that the New York Stock Exchange would eliminate the stock specialists who match buyers with sellers on the trading floor. A combination of academic research and real-life experience, however, showed that human traders were more efficient in many respects. It is likely that they will still exist 100 years from now.

There are good reasons for people to remain leary about letting mathematical formulas, computerized decision making, and academic theory take over entirely. Even the most brilliant experts remain fallible. Long Term Capital Management was a giant, hotshot, well-financed, and heavily quantitative fund for very wealthy investors. It included not one but two Nobel laureates on its staff, and was built on pristine financial insights from leading edge research. In 1998, the firm collapsed with enormous losses, and could have taken dozens of big companies with it had the New York Federal Reserve not intervened. Theo-



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## Financial Futurist?

Robin Hanson is a jittery, intense, George Mason University economics professor. Even as a small child he spent lots of time wrapped up in his own mind. His father worked as a preacher and IRS agent, and eventually settled down into a career as a computer programmer. His mother taught school, worked for a finance firm, and now illustrates children's books. "I was a really self-absorbed loner," he says.

Robin Hanson

A good science student, he majored in physics in college. During his freshman year, he began a several-year effort to make graphs of just about every aspect of the world around him. "I'd have one axis which showed the size of things and another which showed their mass," he explains. "It seemed like a good idea." He went on only a handful of dates, avoided most extra-curricular activities, and had few friends.

Eventually, Hanson took jobs at Lockheed and then NASA, researching artificial intelligence and statistics. He helped develop the Cassini mission to Saturn, using the most complex robotic spacecraft ever built. While auditing classes at Stanford, he worked on the Xanadu project, a collaborative computer experiment that presaged the World Wide Web.

In 1999 Hanson earned a Ph.D. in economics, and today he promotes many controversial free market ideas. He'd like to improve medical care, for instance, by making insurance providers pay large penalties if patients die. His biggest proposal is to use something called "idea futures" to remake the world's financial industries.

Idea futures are betting markets similar to those that bookies run on sporting events, except they would consider serious questions like the potential effectiveness of a new cancer treatment, or a company's likelihood of producing a certain level of earnings. Rather than making decisions by committee or individual fiat, Hanson suggests, corporations, governments, and even individuals could make decisions by sampling market odds.

His proposals grow out of economists' discovery over the past 40 years that prices aggregate an amazing amount of useful information—more, indeed, than any human expert could ever take into account. Although current American laws ban idea futures as a form of gambling (even in Nevada), they have proven effective in real world tests. The Iowa Electronic Markets (which have a special federal exemption) let participants place real-money bets on the fate of political candidates. It turns out that they predict election outcomes better than opinion polls. The Hollywood Stock Exchange, a massive play-money market for entertainment ideas, often does a better job of forecasting movie grosses than the complex economic models used by the studios who film them.

Hanson suggests legal idea-betting markets could allow companies to easily and effectively test new strategies, do market research, and decide the fates of their managers. He would like to see idea futures become not just a centerpiece of investing and finance, but an all-encompassing way of organizing the world. He's even circulated a working paper suggesting that they be used as the basis for public policy decisions. "You could have a heads-up computer display that would let you participate in a betting market as to which restaurant you should pick to eat lunch in," he comments casually, his own head firmly in the clouds. —EL

retical models of finance are like weather forecasts: Even the most fully developed models, run on super-powerful computers, can't effectively aggregate all the information that can affect the value of an investment. A veteran trader commands experiential wisdom and common sense that no academic method has been able to replace.

In a classic 1959 lecture, "The Two Cultures," British academic C. P. Snow describes a yawning disconnect between academics in the sciences and those operating in the humanities: scholars of literature who cannot describe the laws of thermodynamics, and scientists ignorant of Shakespeare. The two groups actually speak different languages, creating jagged schisms in intellectual life.

A similar schism might well have emerged on Wall Street. Had the unimaginative stock pickers of the 1970s remained in the saddle, it's hard to imagine that many of today's pacesetters in finance would have been lured away from the shorter hours, vastly lower stress, and comfortable tenure-track jobs of academia. Our financiers could have remained in their ruts; competitors in London might have taken the world lead in innovation and volume; and America would have been much poorer for the difference.

Instead, Wall Street and academia began to cross-fertilize. The smooth salesmen and driving competitors of the Street's previous generation became much more mathematical. Bright individuals who might have retreated behind college walls became more practical and sociable. A bridge went up between the two cultures.

By helping to root out inefficiencies, finding new ways to recombine money, and developing fresh analytical techniques, the new finance wonks helped America's capital markets remain the most productive, rational, and innovative in the world. Even as we write, a surge of fresh new ideas continues to flow through our brokerages, banks, and exchanges, nurturing new markets and keeping older ones strong.

So did a rather pale and retiring collection of brainy young individuals help keep America's entrepreneurial muscles bulging.


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# Man Versus Mountain

*By Brooks Tucker*

CONWAY, WASHINGTON—Our journey began in earnest on the well-maintained switchbacks that carve their way through dense forest at the base of Mount Baker, in Washington's North Cascades Range. Two hours later, laboring under the weight of our 60-pound packs, we left the treeline and traced our way up through mist and alpine flora on a steep, rarely used trail. I caught my first glimpse of the mountain and its snow-covered moat when I crested the last yards of that path.

We had just covered five miles and nearly 3,000 feet of elevation gain. Now above 7,000 feet, we stopped to set up camp on a tree-rimmed plateau. After dropping our loads like millstones we rubbed sore shoulder muscles, slurped water, and surveyed the carpet of conifers beneath us. The valley was darkened by cloud shadows and spotted with lonely, lime-green meadows. A mere hundred yards away, set against a sky full of shifting mist, lay the mammoth toe of one of Baker's glaciers. Further up, amidst wisps of cirrus above 10,000 feet, lay the pearly snow of her summit.

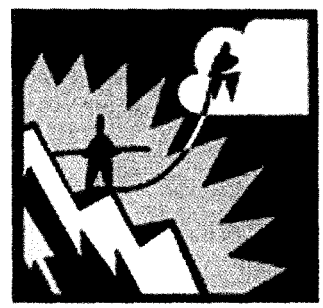
During our first attempt to reach the top, inclement weather blotted out our intended route. We turned back soon after departing camp. On the morning of our second try, a forbidding mist again obscured the camp in a gray soup that hung a few feet above the snow and reached far up into the clouds. But on the third day we awoke well before dawn to an ink-black sky speckled with crystalline constellations. In the darkened valley below we could see moonlight shining platinum on Baker Lake.

After devouring a hastily cooked breakfast, we gathered our ropes and packs, flicked on headlamps, and quickly strapped crampons to our boots. As we filed along to the snowfields, the steel points scraped and sparked against bare rock. Once each climber had tied the shared rope into his harness the first team methodically began kicking steps in the crusty snow. We followed in trace, our lights illuminating small circles on the frozen ground.

A maze of crevasses criss-crossed our route—shadowy fissures and bold black jaws of depths unknown. Far ahead, the headlamps of the lead team swept the glacier along the circuitous route our guide was carefully probing and blazing. At one point he announced he was at the edge of a precarious precipice of snow with no way of moving forward. A different team dutifully struggled up another stretch of glacier and found a passable route, sticking wands in the snow to guide us.

Eventually, the sky began to brighten enough that the summit could be seen in the distance. As we crested a ridgeline, stiff gusts that had burnished the snow to a glassy texture now stung our faces with thousands of ice needles. The sun soon transformed black volcanic rock on the adjoining peaks to vivid hues of rusty red and deep orange. Each team paused long enough to catch its breath and snap pictures, then labored on.

Five hundred feet below the summit, and halfway up an imposing 45 degree ice slope, our rope team hesitated. Lee Anne was grimacing and favoring her right leg, grudgingly admitting that she had twisted her foot early in the morning. She winced as we pulled off her boot and examined the tender, swollen ankle. It was clear we would have to descend as soon as possible.



*On the third day we awoke well before dawn to an ink-black sky speckled with crystalline constellations.*

Climbing down as a rope team was a painfully tedious process. Some four hours later, tired, thirsty, and sunburned, we crossed the final snow bridge and reached camp. The mountain had defeated one more batch of would-be conquerors. But we bore it no animus. That night, we marveled like children at a meteor shower.

*Brooks Tucker spent 16 days on Mount Baker as part of a group from the National Outdoor Leadership School.*



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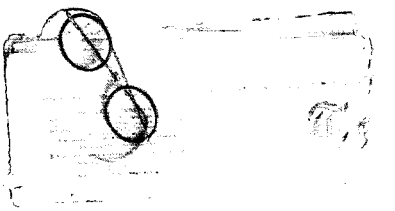
# Flashback

*To know nothing of what happened before you were born is to remain ever a child*—Cicero



## Loco for Liberty

"Walk through Wall Street," commanded a radical journalist of the 1830s, and you will "see a street of palaces." But if the tourist "investigates the sources of their prodigious wealth, he will discover that it is extorted, under various delusive names, and by a deceptive process, from the pockets of the unprivileged and unprotected poor. These are the masters in this land of freedom. These are our aristocracy, our scrip nobility, our privileged order of charter-mongers and money-changers. Serfs of free America! Bow your necks submissively to the yoke, for these exchequer barons have you fully in their power."

The author was just getting warmed up. The lords of Wall Street, he continued, are "low-minded, ignorant and rapacious." They are "aristocrats, clothed with special immunities, who control, indirectly, but certainly, the political power of the state, monopolise the most copious sources of pecuniary profit, and wring the very crust from the hard hand of toil."

This is all very lively prose, you say, but what is so noteworthy about another Marxist denunciation of the boulevard of American capitalism?

Nothing, except that the polemicist in question was not a Marxist but rather the father, or perhaps we should say the eccentric if beloved uncle, of American libertarian journalism, William Leggett of the New York *Evening Post*. Leggett and his early libertarian comrades, the Loco Focos, remind us that free-marketeers once regarded Wall Street as the most sinister avenue in America.

Their detestation of the "paper capitalism" of Wall Street was not due to any antipathy to commerce. Leggett's economic views were simple: If we but "leave trade to its own laws, as we leave water to the laws of nature, both will be equally certain to find their proper level."

The problem, however, was that Wall Street was *not* on the level. It was the product of "special privileges" to the "opulent," of paper money and tariffs and charters of incorporation that gave favored corporations legal advantages, such as limited liability and perpetual life, not available to mere persons.

To Loco Foco thinking, a good dose of free enterprise would fell Wall Street.

Originally known as the Equal Rights Party, the Loco Focos won their name one October night in 1835, when the Equal Rights men sought to seize control of New York City's Democratic Party from Tammany Hall. (One of the Democratic oligarchs targeted by the Loco Focos bore the splendidly immortal name of Preserved Fish.)

Sensing defeat, the minions of Tammany Hall dimmed the gas lights, plunging the meeting into darkness. Responding to the shout "Let there be light!" the quick-thinking radicals struck a new brand of matches called "Loco Focos," and the name stuck.

The faction, like the matches, burned brightly, but briefly.

The human spark that lit the match of Loco Focoism was the incendiary William Leggett: a hot-tempered duellist given to violent quarrels, extravagant gestures, and a brand of laissez-faire so pure he makes Adam Smith sound like Dick Gephardt. The son of a Revolutionary War officer, Leggett was witty and mercurial; he was court-martialed out of the Navy on charges that included his recitation of Shakespearean curses against his superiors.

Upon his discharge, Leggett wrote poetry and took to the stage as actor and theater critic. He soon fell in with William Cullen Bryant and the *Evening Post*, which became the chief organ of the Loco Focos. Leggett was the exemplary "fanatic in freedom" in his pursuit of both ultra-strict construction of the Constitution and maximum personal liberty. So, although he denied that the federal government had a right to abolish slavery in the South, he enthusiastically urged slaves to breathe deeply the Spirit of '76 and overthrow their masters.

Perhaps Leggett's nature was too ardent for a long life; his constitution began to fail. Hoping that a change of climate might revive him, his friends lobbied President Van Buren to appoint the firebrand as diplomatic agent to Guatemala—notwithstanding Leggett's recent characterization of the President as "cringing" and "indecent" and other adjectives that job-seekers are advised not to apply to a potential employer. Van Buren turned the other cheek, however, and in 1839 Leggett got his appointment.

The shock of receiving a government post proved too much for the anarchist. Leggett died before ever going on Uncle Sam's payroll.

—Bill Kauffman



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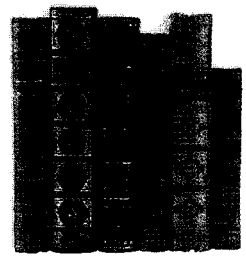

# Public Library, Private Management

*By Mark Hemingway*

A fresh blow in the battle for privatization of inefficient public institutions has recently been struck by an obscure little private company based in Germantown, Maryland. In five short years, the successes of Library Systems and Services Incorporated (LSSI) have turned the sleepy world of public libraries on its head.

LSSI has actually been in the library management business for over 20 years. It was founded when the Reagan administration decided that federal libraries could probably be run more intelligently by private industry. A group of professional librarians and automation specialists formed the company to take up a Reaganite challenge requiring them to provide the same level of service for at least 10 percent less money than the federal government was spending.

No problem. For 15 years LSSI managed federal libraries in places ranging from the Smithsonian Institution to the Department of Energy. At that point, company officials decided the skills they had acquired would also allow them to manage corporate, academic, and public libraries. They began marketing their services in 1997, and by July of that year were running the Riverside County Library System in California.

In theory, managing the public libraries of Riverside, which has 25 separate branches in 15 different municipalities, should be no easy task. Since LSSI took over, however, the results speak for themselves. Over a five-year period, weekly hours of operation have almost doubled, several older library buildings have been replaced or remodeled, the amount of money allocated for acquiring new books is up a whopping 250 percent, and there has been a 57 percent increase in the size of the library staff. But here's the kicker: Before LSSI took over, the operating budget for the Riverside County Library System was $6.3 million; the first year of LSSI's contract (1997) it was $5.4 million; last year, total spending in Riverside was only $6.3 million. That's a lot more bang for your tax buck.

According to Bob Windrow, the vice president of sales and marketing, "Our goal is to go in and provide a higher level of service for the same tax dollars. If we can't do that there's no reason for a city or a county to hire us." Windrow freely admits that "on more than one occasion we've gone back to the governing body [of a library] and said 'Gee, for the amount of money you're appropriating, you're doing a pretty good job, you're getting about as much service as you can expect for that investment.'" But there are plenty of inefficient libraries where LSSI finds it can do much better. The company has had successful contracts in recent years in places like Jersey City, New Jersey; Calabasas, California; Hemet, California; and Fargo, North Dakota.

Still, this revolution hasn't been embraced by everyone. "The naysayers out there like to use the term 'privatization' in a way that incites fear and concern," says Windrow. He notes that LSSI is actually not privatizing anything. "We don't go in and buy library buildings. We don't own any books or materials. Those are all kept in the public trust. They continue to be owned by the city or whomever was in charge of the library. And we don't set policy. The decisions in the operation of the library are still done by the governing body of that library." LSSI simply provides efficient, no-nonsense, business-like management.

For vested interests like unions, however, the company's ability efficiently to meet terms set by local officials offers no solace. Before LSSI took over the Riverside library system, many of the staff were unionized city employees. LSSI ultimately retained over 90 percent of the inherited employees, but they became private employees, not union members armed with collective bargaining pressure. Public libraries like those in Los Angeles County have decided not to hire LSSI because of resistance from large numbers of unionized county employees.

But that may be their loss. Public libraries face new challenges today: fresh technology demands, higher service standards, a need for cost containment, even mergers across old boundaries. "Unless the library profession faces up to some inescapable realities," warns veteran Atlanta librarian and LSSI advisor Ronald Debberly, "many public libraries will cease to exist in the first quarter of this century."

*Mark Hemingway works at the Hudson Institute in Washington, D.C. and is a 2002 Phillips Foundation Journalism Fellow.*



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# Now Playing

## Art Imitates Life

Ben Affleck takes a hot phone call in *The Sum of All Fears*.

©2002 Paramount Pictures Corp./Mark Fellman

Tom Clancy's geopolitical page-turners have always been the stuff of fantasy, but the actual geopolitics of today make *The Sum of All Fears*—the fourth big-screen adaptation of a Clancy novel—look particularly out of this world. It's a what-if thriller upstaged by what really is.

Clancy's plots feed off political paranoia—superpower standoffs, terrorist threats, and doomsday scenarios. When most of his books were published, they managed to keep pace with (or even one step ahead of) headlines on those very topics. At first glance, Clancy seems to be nicely topical again here. *The Sum of All Fears* depicts a shadowy terrorist group at work. But this gang goads the United States and Russia into a war against each other, giving our age of terror attacks an extra Cold War chill. The way this juicy scenario plays out, however, makes the film feel curiously dated, even quaint.

This isn't due to laziness on the filmmakers' part, for the powers that be at Paramount Pictures have done everything possible to update Clancy's 1991 novel to 2002. The most drastic change is that Harrison Ford, who played Clancy hero Jack Ryan in *Clear and Present Danger* and *Patriot Games*, was dropped from the franchise. In came twenty-something Ben Affleck and the need to rework the story for a lead character two decades younger than in the novel.

But the emphasis on one heroic figure undermines the relevance and believability of *The Sum of All Fears*. The anti-terror campaign in Afghanistan isn't the doing of one clever CIA agent, but of thousands of fighters down the line. In *The Sum of All Fears*, all we need is Affleck. Anyone who reads the newspaper, though, knows that today's geopolitics is a team sport. No one man saves the day. So as young Jack Ryan trots across the globe on a one-man mission to expose a terror conspiracy, this movie feels more like a James Bond escapade than a drama ripped from the front page.

Moreover, the terrorist cabal Jack Ryan is up against is a vague, rather silly international association said to include "Nazis, nationalists, and right-wing zealots." When these predictably white old men meet and conspire, they're about as threatening as the cartoon characters of the Legion of Doom. Again, actual events make *The Sum of All Fears* look like a pale imitation. Who's scared of these bozos when we've got al-Qaeda killing machines out in the real world?

The movie becomes much more serious when this gang detonates a nuclear bomb at the Super Bowl and paints Russia as the culprit. It may be unintentional and unearned, but in the wake of September 11 there's a poignant resonance to the ensuing images of post-explosion devastation. Similarly, the panicky scenes aboard Air Force One, in which the President considers retaliation, carry an extra sting in the current climate.

While *The Sum of All Fears* has its moments, the thrills are brief and underdeveloped. The movie plays like a kid's interpretation of current affairs while the adult version is taking place right outside the theater. Contemporary events have dramatically raised the bar for writers and filmmakers of pulp political fiction. Their competition isn't just other entertainment anymore—it's also the breaking news. —Josh Larsen



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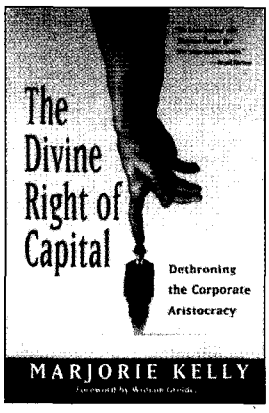
# BookTalk

## STEALING FROM SHAREHOLDERS

By Bruce Ramsey

*The Divine Right of Capital: Dethroning the Corporate Aristocracy*
*By Marjorie Kelly*
*Berrett-Koehler, 200 pages, $24.95*




*The Divine Right of Capital* accepts supply and demand, competition, profit, self-interest, and the market. The arguments are phrased in the language of Jefferson, not Marx. The word "socialist" is never used. Yet that's exactly what this book is.

Marjorie Kelly begins by complaining that, in most companies, shareholders are simply people who bought stock. They didn't found the firm, or do anything, yet the whole enterprise is run in their interest.

Is that wrong? Think of the buyer of an old apartment house. He hasn't created new housing; he's part of a chain of investors who allowed the creator to recoup his money and go away. The ownership rights pass from hand to hand in perpetuity.

Imagine a different rule. Say the building's ownership reverted after 30 years to the tenants. Under such an arrangement it might still be possible to entice the owner to build the building, but he would have to collect much higher rents, knowing he would lose the building at year 30. If he were enticed to build with perpetual rights and his building was then expropriated at year 30 in the name of tenant rights, that would simply be theft.

Yet that is what Marjorie Kelly proposes for American corporations: Change the rules and steal companies from shareholders. That's not how she puts it, of course. She suggests that a shareholder's rights should be pronounced used up after a certain time, with workers inheriting the shareholder's assets.

Kelly gripes that stockowners are just aristocrats who want "to be free from labor." She maintains that "shareholders serve about as many functions as an eighteenth-century French marquess, which is to say almost none. Except collecting their own income.... It is inaccurate to speak of shareholders as investors, for more truthfully they are extractors."

Do shareholders extract too much from companies? Their "extraction" is done through dividends, which have lately fallen under 2 percent. That is, for every $100 of market price stock, the shareholder gets an average of $2 per year. (Shareholders also make money when the value of the shares goes up. But that increased value is not extracted from the corporation—it comes from other stock buyers.)

Of every dollar paid to individuals in 2000 (according to official personal income statistics), employees got 65 cents, recipients of transfer payments 15 cents, savers 12 cents, proprietors 9 cents, landlords 2 cents, and shareholders 5 cents. Is that too rich an incentive for the creation of corporate capital?

There is no law against forming a company in which workers, not shareholders, own the profit and loss. It is called a workers' cooperative. But such co-ops face perennial problems. How to set the ownership shares of new workers? How to cash out workers who quit or retire? There is the lack of incentive for worker-owners to retain earnings to build the company. How do co-ops lay off employees in bad times? What if fellow worker-owners want to own but not work?

But Kelly doesn't talk about the fragility of co-ops in practice. She talks about how corporations should be made more equitable in theory. Instead of letting shareholders decide on a takeover offer, the workers, or maybe the community, should be allowed to vote on it. There would be less "brutality" that way.

Who would sink his private assets into a corporation if shareholder rights were taken away? What would happen to the value of corporate stock now held by unions, insurance companies, and pension funds—and the millions of small holders who rely on the wealth and income from those shares? Has anything like what Kelly proposes ever been tried before? You won't find the answers here.

*Bruce Ramsey is an editorial writer for the* Seattle Times.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## FAREWELL, SMALL MERCHANT

By Philip Langdon

*Going Shopping: Consumer Choices and Community Consequences*
*By Ann Satterthwaite*
*Yale University Press, 384 pages, $39.95*

When my parents, my brother, and I moved to Wesleyville, Pennsylvania in 1959, a rambling clapboard store called Plubell Hardware stood in the center of town, selling supplies to farmers, employees from nearby manufacturing firms, and a procession of home handymen. Plubell's was an old-fashioned place where the floors were a varnished brown hardwood and the plaster walls went up and up. Just how far up, I discovered during a school vacation when I washed the grime off those walls for $1 an hour.

At Plubell's, when a customer wanted nails, owner John Schiefferle or one of the men working for him would weigh the nails on a scale, pour them into a paper bag, and ring up the sale on an immense manual cash register. John MacKinlay, the shop teacher at Wesleyville High, admonished the boys in his classes to master hardware terminology because, he said, anyone unable to ask for nails by their proper sizes—8 penny, 10 penny, 12 penny—would surely be embarrassed when shopping at Plubell's.

But in the 1960s, old retailing ways were thrown into obsolescence—at great cost to Plubell's and other independent, owner-operated stores and to most communities that supported a local merchant class. Discount chains and self-service transformed merchandising. Eastway Plaza, just outside Wesleyville in neighboring Harborcreek Township, opened in 1960, drawing trade away from Plubell's and the other small merchants in town. The Plaza's Fairway store offered nails and other building supplies in transparent plastic bags with pre-measured contents, prices marked. The need for a talk with a sales clerk was eliminated. The Plaza's discount department store sold housewares and toys for less than Plubell's did. So in 1971, when Mr. Schiefferle reached retirement age, no one could be found to keep his business going. The store was closed, its ancient building demolished. The site became a used-car lot.

Memories of Wesleyville's once-upon-a-time business district came back to me while reading Ann Satterthwaite's wide-ranging history of shopping. Satterthwaite, a planning consultant in Washington, D.C., sees shopping not only as a means of satisfying material needs but as an important way of participating in community life. Frequent visits to small establishments run by local merchants matter, Satterthwaite says, because "the casual, trivial encounters day after day with the same clerks, and with familiar and random customers, build a sense of familiarity and belonging."

Satterthwaite isn't exactly a crusader against modernity. She writes approvingly about warehouse retailers who "must be recognized as a popular, economical way to obtain many supplies." Nor is she a zealot against fashion or materialism. She notes that observers as far back as Alexis de Tocqueville found Americans taking "pleasures in material life."

Nonetheless, she is troubled by the withering away of much local retailing, as mass merchandizing has shifted to giant discount stores and shopping malls, which themselves are increasingly struggling to avoid bankruptcy. The downside of mass retail in her view is a widespread sense of "remoteness and powerlessness." Impersonal shopping is just one part of "today's pervasive alienation."

One of the most fascinating sections of the book is a country-by-country discussion of how various governments have regulated the locations, sizes, and operating hours of stores to defend small enterprises embedded in local communities. In Germany, law dictates that most stores close by 8 p.m. on weekdays and by 4 p.m. on Saturdays. Except for bakeries, travel services, and certain others, they cannot open at all on Sundays. Norway has enacted a five-year ban on construction of large shopping centers outside of town centers. Britain has imposed strict limits on development of shopping complexes outside town and city centers. "Retailing policies and activities are headline news in England," Satterthwaite observes.

Limits on store hours may be unthinkable in the U.S., but state and local governments have protected traditional community retail centers in a number of places across the country—sometimes, as in Vermont, with considerable success. If such efforts are to succeed widely, Satterthwaite suggests, governments will have to address the regulatory burdens, environmental strictures, and other issues that discourage developers from placing new stores in town centers. *Going Shopping* is thoughtful and widely researched, and is a useful book for anyone interested in the quest to balance community well-being against economic efficiency.

TAE *contributing writer Philip Langdon is author of* A Better Place to Live: Reshaping the American Suburb.

## THE FEMINIST LIE

By Karina Rollins

*The Feminist Dilemma: When Success Is Not Enough*
*Diana Furchtgott-Roth & Christine Stolba*
*AEI Press, 228 pages, $25*

Is your head swirling from claims about the wage gap and glass ceiling? Do you wonder whether women need the federal government to protect them from boorish male co-workers? Are you suffering from the vapors after seeing successful women everywhere while being told that women



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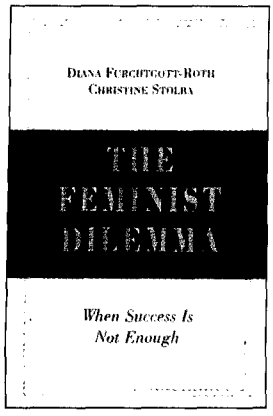



are second-class citizens? Crack open *The Feminist Dilemma: When Success Is Not Enough* for a dose of sanity. Diana Furchtgott-Roth and Christine Stolba have produced a second volume of those pesky things feminists hate: facts.

Women are doctors, lawyers, journalists, executives, business owners, and managers. Politicians are falling over themselves to court the female vote. Judging by media coverage of recent elections you could have thought that the only votes that count are those of soccer moms. Yet every major feminist group, from the National Organization for Women to respectable-sounding establishments like the American Association of University Women, perpetuates the myth that women face institutionalized sex discrimination. And they are pushing (quite successfully) for an ever-growing network of government regulations over American social and economic life.

Why does the overwhelming success of American women not satisfy feminists?

> During the past two decades, feminist organizations have been some of the most successful fundraisers in the non-profit world, with grants from government, foundations, and private corporations. Thus, feminist groups have a financial stake in continuing to claim that women are second-class citizens and that the struggle for women's rights is never won. Without the banner of victimhood to rally around, feminist coffers would run dry.

That's a hefty assertion. But Ms. Furchtgott-Roth, an economist, and Ms. Stolba, an historian, have done their homework. These two ladies prove that the feminists' favorite enemy, the patriarchy, simply does not exist anymore. Their book is jam-packed with numbers and studies disproving such feminist gospels as women earning 75 cents for every male dollar at the same job. While painstaking detail does not always make for riveting reading, it inspires confidence that the authors' arguments are based on facts, not ideology.

The authors also offer common-sense perspective. Yes, there are more male than female CEOs. But most of those men have extremely limited time with their families. It is a biological fact that women, not men, have babies; and women shape their lives based on that reality, often choosing careers that allow for more time at home than being a CEO permits.

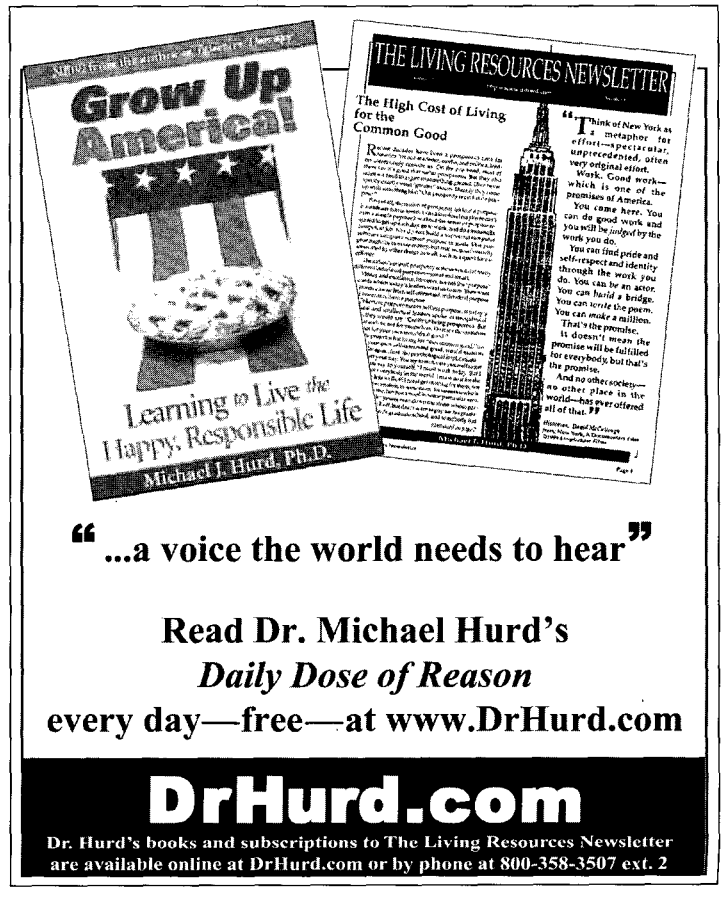
Furchtgott-Roth and Stolba don't claim that the limited education and career choices women faced just a few decades ago were quaint and made for better family life. They give due credit to the suffragists, and even praise the feminists of the 1960s and '70s. What they have no tolerance for are bogus claims of female victimization today.

Since feminists have largely prevailed in defining equality as numerical parity, female-owned restaurants can be sued for not hiring enough female waiters. In Florida, the owners "had to pay back wages and benefits to four women, two of whom had never even applied for a job, but who told the judge that they had considered applying."

The mainstream media, which unquestioningly present feminist fabrications and absurdities as objective truth, have many well-intentioned men and women racking their brains to fight sexism where none exists. Dissent from feminist claims of discrimination is treated as treason. Think of the outrage Christina Hoff Sommers caused when she demonstrated in *Who Stole Feminism?* that most men do not, in fact, beat their wives on Super Bowl Sunday.

Use *The Feminist Dilemma* as your Reality Manual to poke a hole in just about any accusation feminists hurl at today's society. Women: Do this not to defend the "patriarchy," but yourselves. Men: Do it for your own sanity.

*Karina Rollins is a* TAE *senior editor.*



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Edited by Martin Morse Wooster and Eli Lehrer

# the Digest

*Summaries of important new research from the nation's universities, think tanks, and investigative publications*

## ECONOMICS AND BUSINESS

### The Moral Goodness of Free Trade

Charles Calomiris, *A Globalist Manifesto for Public Policy*, Institute of Economic Affairs, 2 Lord North Street, London, SW1P 3LB, England

Lord Macaulay, the great British historian, once observed that "Free trade, one of the greatest blessings which a government can confer on a people, is in almost every country unpopular." American Enterprise Institute visiting scholar Charles Calomiris argues that moral and cultural arguments should be used more often to advance the case for free trade.

In his book *Principles of Political Economy*, John Stuart Mill argued that trade is a great force for human communication. It places people "in contact with...modes of thought and action unlike those with which they are familiar. Commerce is now, what war once was, the principal source of this contact."

Calomiris expands on this to argue that nations with an "outward economic orientation" improve people's lives, because this orientation "encourages institutional, political, and even cultural changes that expand the frontiers of economic achievement and individual rights." Consider Europe and China between 1300 and 1900. Europe's fragmented political structure forced nations to compete with one another. China had a unified political structure and better technology during the same period, but the emperors of the Ming Dynasty (1368-1844) felt threatened by Chinese merchants. According to historian David Landes, these emperors saw seafaring traders "as a divisive force and source of income inequality." So they blocked commerce, and the result was that by 1898 a British citizen was making five times as much money each year (in constant dollars) as a Chinese.

The wealth generated by free trade does not spread uniformly throughout an economy. Sometimes a few people become very wealthy for short periods of time. Overall, however, poor people do best in nations with free trade.

## SOCIETY

### Choice Helps Public Schools

Caroline Hoxby, "School Choice and School Productivity," National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, Massachusetts 02138

Opponents of school choice contend that allowing parents to select their children's schools could damage educational quality for those who remain behind. New research from Harvard University economist Caroline Hoxby, however, indicates that nothing could be further from the truth.

Hoxby, writing a National Bureau of Economic Research working paper, investigates programs in Milwaukee (where low-income parents can get vouchers) in addition to well-developed charter school programs in Arizona and Michigan. She finds that competition between schools has a *positive* effect on public institutions, and actually increases their test scores. Hoxby examines the data on what she refers to as "educational productivity": increases in test scores per dollar spent on education. Since the early 1970s, educational productivity has entered a nasty free fall, dropping nearly 75 percent in some categories.

But Hoxby finds that public schools facing private competition used their resources better in all three regions she examined, and that Milwaukee—where school choice has gone further than anywhere else in the country—had the best results of all. When it came to math tests, productivity increased nearly four times more quickly in high-poverty Milwaukee elementary schools than it did in similarly situated schools elsewhere in Wisconsin. Comparable (though not quite as startling) results appeared across the board. In every case, schools increased their productivity by raising achievement standards, rather than by cutting spending.

On the basis of her data, Hoxby estimates that widespread school choice could increase American educational productivity by well over a quarter. It doesn't appear to take much to stimulate these changes: Fewer than 2 percent of Milwaukee parents actually took part in the school choice program. "In fact," Hoxby writes, "regular public schools responded to competitive threats that were surprisingly small." Improvements in public schools, she concludes, "may be the key effect of choice."



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### Fake Degrees of Separation

Judith Kleinfeld, "The Small World Problem," in *Society* (January/February 2002), 35 Berrue Circle, Piscataway, New Jersey 08854

In a 1967 article in *Psychology Today*, psychologist Stanley Milgram announced he had conducted research showing that, on average, two random people could be connected with each other by a chain of five people. Milgram's research was the basis for the now-popular notion that just "six degrees of separation" differentiate a person from a relationship with any other person.

But after studying Milgram's unpublished papers, psychologist Judith Kleinfeld of the University of Alaska at Fairbanks reports that Milgram's research is probably "the academic equivalent of an urban myth."

Milgram conducted his study by soliciting 60 people in Kansas to see if they could mail a document to friends, who would pass it on to other friends, until someone would be able to get it to the wife of a Harvard divinity student. But only 5 percent of the chains actually reached their destination, and on average these successful chains needed eight people (or nine degrees of separation) to reach the target. Even then, Milgram's original advertisement was worded to attract "*sociable* people proud of their connections."

Only two other psychologists ever tried to duplicate Milgram's research, and neither succeeded. Kleinfeld suggests this means we don't live in a small world after all, but rather in many separate small worlds, where a college dean can easily find other deans but may find it hard to reach professional hockey players or chess champions.

### Male-Female Mismatch

James Q. Wilson, "Sex and the Marriage Market," in *Commentary* (March 2002), 165 East 56th Street, New York, New York 10022

There are many reasons for the increase in single-parent households and illegitimate children. In this article, excerpted from his new book *The Marriage Problem*, James Q. Wilson points to one of them: the fact that "the number of men who are available to be married" is steadily dropping.

The number of men per 100 women is called "the sex ratio." When there are more men than women, women can be choosy about whom they marry. Women can also insist, as a requirement for marriage, that their husbands lead more moral lives or hold responsible jobs. When men are scarce, however, they are in the driver's seat.

Between 1790 and 1910, there were about 105 men for every 100 women in the U.S. But since then, the sex ratio has steadily fallen. Women now choose partners who are about three years older than they are, and most marriages are between people in their twenties. But there are only 67 American men age 23-27 available for marriage for every 100 women age 20-24. These ratios drop even more as people enter their thirties and forties, as men are more likely than women to die young or go to jail.

In cases like this, cohabitation becomes an alternative to marriage, and men divorce their spouses to marry younger trophy wives. There are many cultural reasons why marriage is weakening, but the declining number of eligible men is one factor making out-of-wedlock births and single-parenthood increasingly prevalent.

## SCIENCE AND ENVIRONMENT

### Washing Machine Menace

Michael Heberling, "Washing Your Clothes Washington's Way," in *Ideas on Liberty* (January 2002), 30 South Broadway, Irvington-on-Hudson, New York 10533

In the early 1990s, the federal government outlawed traditional toilets in favor of "low-flow" toilets that, while allegedly saving water, were more inefficient and cost more than the toilets that were banned. Now, reports Baker College scholar Michael Heberling, Washington is set to ban the top-loading washing machine.

Currently, about 90 percent of the washers sold in the U.S. are top-loaders. But under regulations approved by the Bush Administration in April 2001, top-loading washers are to be superseded by side-loaders. The Department of Energy says the new washers are environmentally sound because they use 25 percent less water and 40 percent less energy than old-style washers.

But they also cost $241 (59 percent) more than top-loaders, on average. While the new machines do use less energy, the amount saved is so small that consumers would have to wash clothes 7.5 times each week for 14 years to recoup the extra expense of the new machines

A consortium of manufacturers, environmentalists, and government agencies approved the move to new washing machines. (Manufacturers supported the proposal because the more expensive models are more profitable.) And Heberling warns that more government restrictions on other appliances "are already in the works."

## OTHER COUNTRIES

### Recovering From Communism

Anders Åslund, *Building Capitalism: The Transformation of the Former Soviet Bloc*, Cambridge University Press, 40 West 20th Street, New York, New York 10011

It has now been over a decade since the Soviet Union collapsed and the former Soviet bloc was freed from Russian tyranny. Anders Åslund, a Carnegie Endowment researcher, surveys the 15 nations that once comprised the Soviet Union and six



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countries in occupied central and southeastern Europe to determine how they are faring economically and politically.

Åslund divides the former Soviet bloc into three classes. Doing best are the Baltic states and the nations of Central Europe, including Poland, the Czech Republic, Slovakia, and Hungary. These nations have become market-oriented democracies. In the middle are Russia, Ukraine, Romania, Bulgaria, and most of the nations in the Caucasus, which are semi-democratic, semi-capitalist, and semi-free. At the bottom are unreconstructed communist dictatorships, such as Belarus.

Åslund judges the progress of these states on six criteria: establishment of a market-based economy; keeping inflation below 40 percent per year; privatization of at least 60 percent of the economy; annual economic growth of at least 4 percent for three years; limiting corruption; and establishing democracy.

According to Åslund, there are several factors that determine which former communist nations became successes. Countries that were once free found it easier to regain freedom. Poland and Hungary, to take two examples, had some strong private businesses.

A more crucial factor has been the pace of privatization. Those nations which implemented privatization swiftly ended up creating economic reforms that lasted. The architects of massive privatization were derided at the time for causing economic misery. But their efforts ensured that Poland and the Czech Republic became successful capitalist countries.

By contrast, states that delayed their privatization efforts, including Ukraine and Moldova, had to face an entrenched "establishment that thrived on state ownership in corrupt ways."

When these nations sold state-owned enterprises, the buyers were often insiders who looted the properties, ensuring economic stagnation.

Privatization was also more effective when it dealt with large enterprises as well as small ones. Under communism, factories were judged on how much they produced, not whether anyone wanted to buy their products. Planners were proudest of creating heavy industry. Heavy industrial firms usually produced shoddy goods, but employed many workers. In Poland, Hungary, and Estonia, strong new bankruptcy laws ensured that many of these dinosaurs closed. But other firms preserved their monopolies and lumbered on. In Russia, the former Soviet gas and electricity ministries as well as the national railroad have resisted reform and continue to employ thousands of useless workers.

The former Soviet nations have also had a mixed record in agriculture. In some countries, agriculture was one of the few areas to be successfully privatized. In Romania, farmers implemented radical privatization on their own in 1990, seizing control of 80 percent of the state-owned collective farms. Armenia and Kyrgyzstan have successfully created markets for farmers and implemented land reform. But in many formerly communist countries, agriculture stagnated.

Åslund concludes that former communist countries that have not implemented reforms will continue to stagnate and decay. "It is very difficult to cross the chasm to a normal market economy," he writes. The collapse of much of Africa's economy, he adds, shows that "there is no necessary limit to how deep a mismanaged rent-seeking dictatorship may fall."

## Learning From the European Union

Michael Greve, "New Insights from the Old Continent," in *Federalist Outlook* (January/February 2002), American Enterprise Institute, 1150 17th Street N.W., Washington, D.C. 20036

As the member states of the European Union slowly meld into a giant superstate, some parts of that integration might be worth emulating by others. American Enterprise Institute resident scholar Michael Greve suggests that one principle worth imitating is the notion of "mutual recognition."

In the 1970s, West Germany outlawed the importation of French cassis, because the French beverage, with an alcohol content of 20 percent, did not have quite enough alcohol to be classified as hard liquor, and therefore could be consumed by minors. In the *Cassis de Dijon* decision (1979), the European Court of Justice ruled against the Germans and declared a principle of "mutual recognition," which allows products legal under the laws of one E.U. member state to be sold in all member states.

The "mutual recognition" principle has caused many countries to open their markets to previously blocked competitors and their products. A 1999 ruling extended the principle of mutual recognition to corporate charters as well, allowing firms organized under the laws of one member state to be recognized as legal enterprises by all E.U. member states.

But mutual recognition is under fire from leftists who want to complete the transformation of the E.U. into a transnational government that fully controls the policies of member states (implying *more* state bans, not fewer). Also, the original decision held that "essential" public-safety regulations were exempted from the principle of mutual recognition, a loophole that has become a subject of dispute.

Greve sees the moves toward a uniform European Union, "with dental care for all and the death penalty for none," as repudiating mutual recognition in favor of increased standardizing power for Brussels.

But he sees mutual recognition as a useful principle that Americans can use to help in "breaking entrenched state regimes and fighting excessive centralization."



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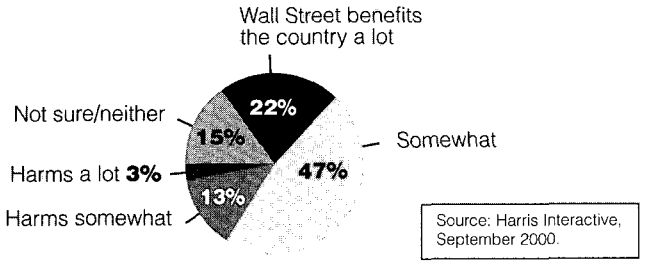
# Opinion Pulse

Edited by Karlyn Bowman

# Mixed Views of Wall Street

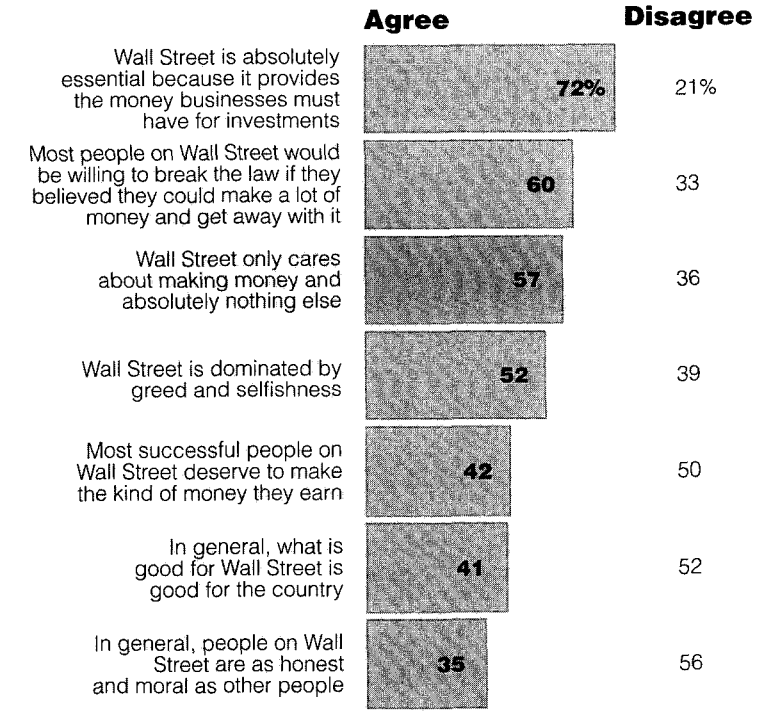
Far more Americans believe Wall Street benefits the country than think it harms us. Still, Americans are of two minds. Seventy-two percent say that Wall Street is absolutely essential because it provides the money business needs for investment. Sixty percent, however, believe that most Wall Streeters would break the law if they thought they could get away with it. In 1935, 22 percent of Americans said they owned securities. In broader questions today, around half say they own stocks, bonds, or mutual funds.

**Question:** The words "Wall Street" are often used to describe the nation's largest banks, investment banks, brokerages and other financial institutions. Overall, would you say...?



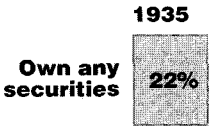

Source: Harris Interactive, September 2000.

**Question:** Please say if you tend to...?



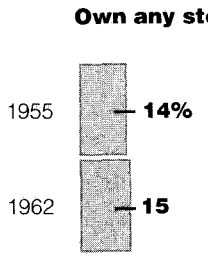

Source: Harris Interactive, September 2000.

**Question:** Do you...?




Source: Elmo Roper for *Fortune*, October 1935.

**Question:** At present, do you happen to...?

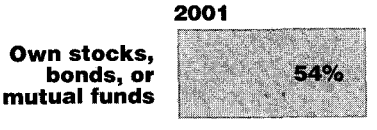



Note: Question wording varied slightly.
Source: The Gallup Organization, latest that of May–June 1962.

**Question:** Which of these things, if any, do you...?

Source: RoperASW, January 1974.

**Question:** Do you, either directly or through a 401(k) plan...?




Source: *Washington Post*, Kaiser Family Foundation and Harvard University, March–April 2001.



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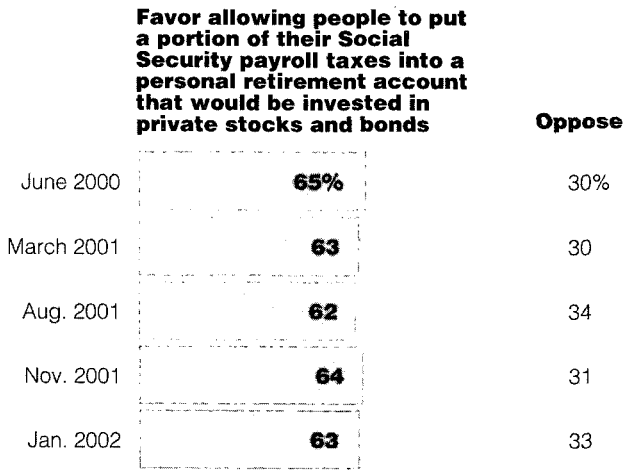
# Interest in Reforming Social Security Endures

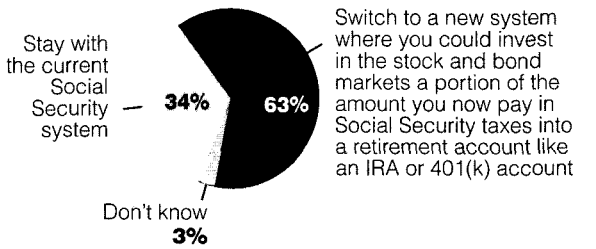
Americans are less confident than in the past that they can count on Social Security in their retirement years. That is one reason they are receptive to the idea of personal accounts. Around 60 percent favor allowing people to invest a portion of their Social Security payroll taxes in private accounts. Importantly, as the January and March data below show, neither the Enron scandal nor the stock market's ups and downs have altered public opinion on the issue.

**Question:** A proposal has been made...?



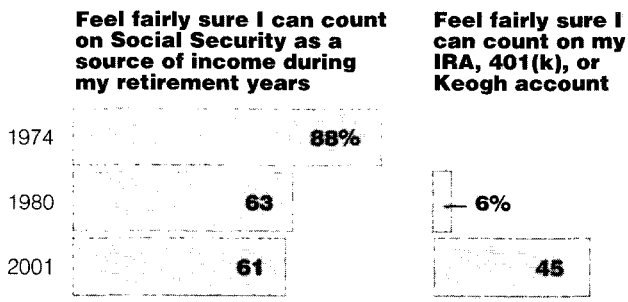

Source: Gallup, CNN, *USA Today*, latest that of January 2002.

**Question:** If you had a choice today, would you...?



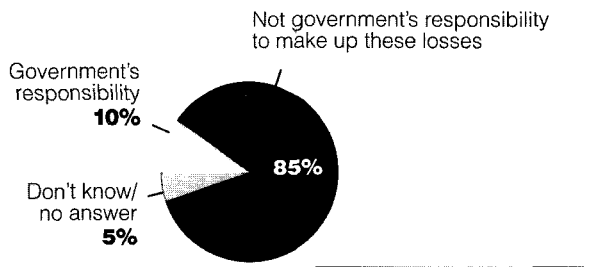

Source: Greenberg Quinlan Rosner Research and Public Opinion Strategies for NPR, March 2002.

**Question:** Which of these do you ...?



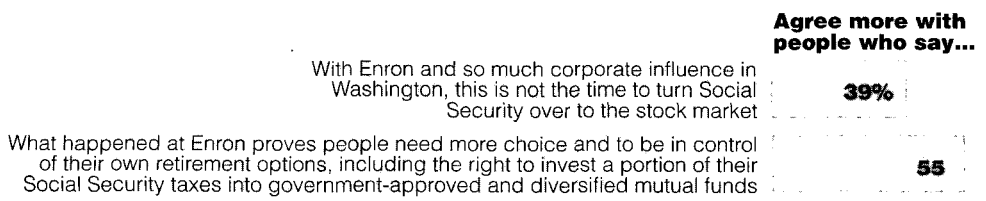

Note: Not all categories shown.
Source: RoperASW, latest that of July 2001.

**Question:** If people who choose to invest their Social Security taxes in the stock market lose their money it is...?




Source: CBS News, January 2002.

**Question:** As you may know, Enron's bankruptcy wiped out the savings of thousands of Enron employees whose pension funds had been invested in the company's stock. Knowing this do you...?




Source: Greenberg Quinlan Rosner and Public Opinion Strategies for NPR, March 2002.



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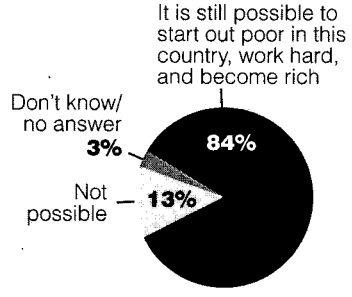
# What Do You Think of The Rich?

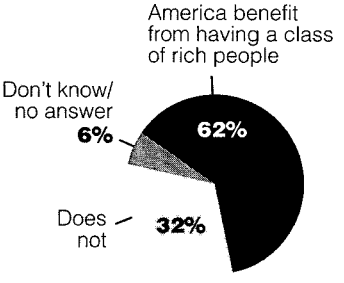
Americans don't resent the rich nor do they particularly admire them. They believe the country benefits from having a class of rich people. Fifty percent say we have about the right number of them, 25 percent, too many, and 20 percent, too few. A little over 10 percent consider themselves upper income or rich. A third think it's possible they could become rich some day.

**Question:** Do you think...?



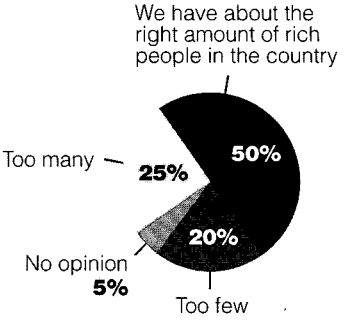

Source: CBS News, February 2000.

**Question:** Does...?



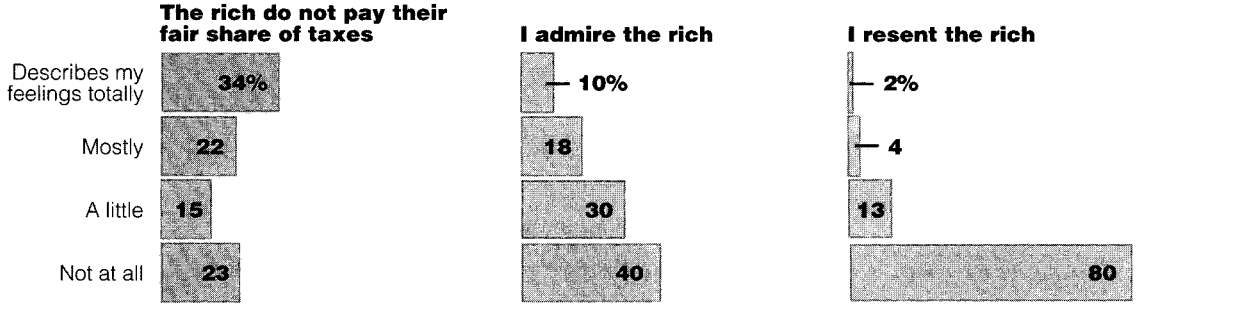

Source: The Gallup Organization, May 1990.

**Question:** As far as you are concerned...?



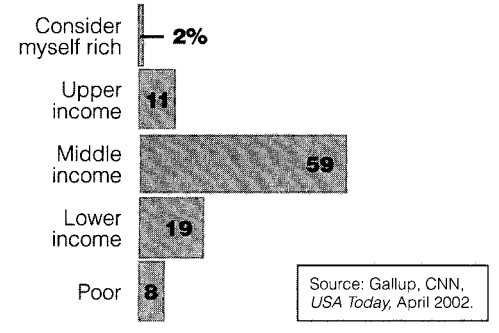

Source: The Gallup Organization for General Motors, April–May 1998.

**Question:** I'll read you some statements that people might make about the rich, and for each one, please tell me whether that describes your own personal feelings...



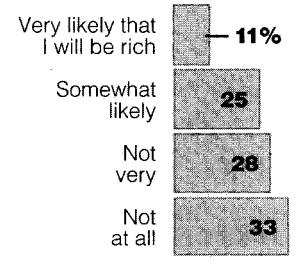

Source: NBC News/*Wall Street Journal*, March 1998.

**Question:** Thinking just about your own financial situation, do you...?




Source: Gallup, CNN, *USA Today*, April 2002.

**Question:** Looking ahead, how...?




Source: Princeton Survey Research Associates, July 1997.



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# the Mail

While I couldn't agree more with Karl Zinsmeister's comments about the hypocrisy of New York City's Upper East Side elitists (BIRD'S EYE, June), he is wrong to make broad statements about the city's lack of patriotism. A group of neo-Nazi militiamen in Idaho doesn't represent that part of the country any more than a group of sheltered, wealthy socialists in New York represents ours. New York is about individual freedom—just like America. New York City took it on the chin on September 11 because it represents everything that makes America what it is: both the good and the bad.

*Eric Paul*
*New York, New York*

Karl Zinsmeister's statement that "New York City has always been the least patriotic place in America" ignores the clear patriotism displayed by our firefighters, police officers, and emergency medical technicians.

Indeed, he indicts these same individuals when bemoaning the number of New Yorkers who have chosen to work in the public sector. Flying flags is nice but actions are better.

*Michael Weinstock*
*New York, New York*

Karl Zinsmeister replies:
*My comments on New York City's patriotism weren't name-calling; they were tied to very specific evidence from history and current military enlistments. And they apply to the city as a whole, not to worthy individuals. Please refer to my arguments on page seven of our June issue.*

I'm not sure I agree with Karl Zinsmeister's premise that New York City is likely to recover from 9/11 more rapidly than most observers expect. Not only must it deal with the effects of the terrorist attacks, but also with scandals in the financial industries which provide its economic lifeblood. But not everyone agrees with my view. My 14-year-old son Alexander loves to go there.

*Thomas H. Naylor*
*Duke University Professor Emeritus*
*Charlotte, Vermont*

I was sorely disappointed by Karl Zinsmeister's article. He is wrong to claim that the revival of New York neighborhoods is the work of private actors.

Much of the rebuilding of the South Bronx took place because the government spent billions of public dollars to rehabilitate housing.

*Steven Gerstne*
*Edison, New Jersey*

In "Ground Zero for Big Government" (June), Fred Siegel writes that Rudy Giuliani was the only twentieth-century mayor of New York who opposed the growth of government on principle. Mr. Siegel has forgotten William Jay Gaynor, who fought the forces of big government when he served as mayor from 1910 until his death in 1913.

*Robert M. Thornton*
*Fort Mitchell, Kentucky*

While Karl Zinsmeister may be correct in expressing optimism for the long-term health of the nation in his April/May BIRD'S EYE ("Checking America's Vital Signs"), readers still must ask, "Is that all there is?"

In the same issue, Dinesh D'Souza ("What's So Great About America?") claims that "religion is protected from government." Not true. Our laws reflect a bias against the nation's Christian heritage. We docilely tolerate an un-Constitutional wall of separation that effectively isolates religion from our schools and other public forums.

*W. Edward Chynoweth*
*Sanger, California*

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***LIVE** continued from page 19*

well as judgment, persuade more people?
**SCHLESSINGER:** One is either genuine or one isn't. If you want a syrupy, b.s. tone where I'm pretending compassion when I'm trying desperately to get something across to a person to sincerely change them, I'm the wrong woman for the job. I'm tough when the moment is tough. I slap you when you need slapping and hug you when you need hugging. I believe that's one of the reasons I'm successful: People know that I'm sincere. They understand my intent.

I'm trying to motivate people to be warriors in their own lives, to fight for themselves, their ideals, and their families. My father didn't raise any wimpy girls. People who can't handle assertive women just go crazy in my presence.

*The American Enterprise* welcomes your comments. Send to "The Mail," The American Enterprise, 1150 17th Street N.W., Washington, D.C. 20036. Or fax to (202) 862-5867. Or e-mail tae@aei.org. Please include your address and phone number. Published letters may be edited for length and clarity.



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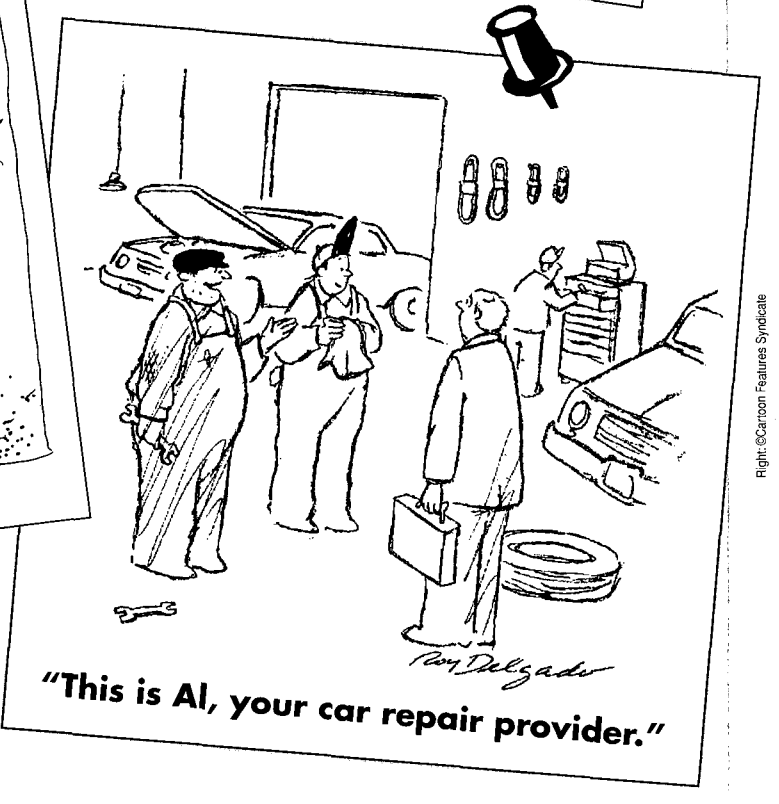


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Think TANK with BEN WATTENBERG

# IS THIS A TWOFER YOU MIGHT GOFER?

**To: Potential Corporate, Foundation and Individual Donors**

**From: Ben Wattenberg**

Think Tank has just begun production of a significant PBS documentary: "Heaven on Earth: The Rise and Fall of Socialism," based on the new book of that name written by my AEI colleague Josh Muravchik.

The book tells a stunning yet personal story. It has received rave reviews. The television program will put the book's message on the air and into America's classrooms. An international version will reach audiences across the world. The show will be accompanied by a major educational and outreach campaign. Economic utopianism will never be the same.

The two-hour, prime time documentary will air on PBS in 2003. It will be repeated many times by PBS YOU, a satellite channel reaching 25 million households.

We have raised some but not all of the monies necessary to make the program all that it can be. We are seeking additional funding from foundations, corporations and individuals to support production and distribution of the program.

In itself, we believe the "Heaven on Earth" project is a worthwhile endeavor. But, *at no additional cost,* underwriters may simultaneously support the prize-winning Think Tank series, which airs every week on PBS.

Think Tank, in its ninth season, is the only regular weekly program on ideas and public policy. We've stuck to our original credo: no politicians, no journalists, no food fights, no kidding. We don't do scandal; we don't do spin.

The panelists on Think Tank are scholars and authors, from think tanks and the academy. They speak American. Our guests have included: Milton Friedman, Daniel P. Moynihan, Samuel Huntington, Michael Novak, Francis Fukuyama, Camille Paglia, Robert Bork, Catherine MacKinnon, Norman Ornstein, John Kenneth Galbraith, and many more.

We have done programs on the "clash of civilizations," John Philip Sousa, Abraham Lincoln, cancer, Norman Rockwell, oil, Iraq, Alzheimer's, school vouchers, and nuclear power.

For foundations, Think Tank offers added value. So much valuable public policy research moves slowly, if at all, into the public arena that ultimately shapes decision-making. Think Tank puts sunshine on research that might otherwise hardly see the light of day. For corporations the combination of Think Tank and "Heaven on Earth" offers a unique advertising and promotional platform.

Think Tank "evergreen" programs are re-aired 10 times each week on PBS YOU.

By combining "Heaven and Earth" with Think Tank, we are offering an opportunity to make a difference in the public debate.

PBS

For more information about Think Tank contact Greg Erken at 202.862.4882 or Ben Wattenberg at 202.862.5908

**THINK TANK: THE PBS PROGRAM ON IDEAS**

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# The disability benefits that work best for your employe[e]
# are also the disability benefits that work best for you

efits manager you want to protect your company's most valuable assets: your emplo
des you. But you want to do so in a way that also protects another valuable asset:
NA, we provide group disability benefits that are easy to use and easy to administer. We
ble online 24 hours a day. So employers can find answers to their questions.
a dedicated case manager to follow up each claim from start to finish. They lead the p
to. And we provide you with an account manager, so you have a single
on all your issues. Why do we do this? Because when something as basic
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